CYANCONNODE HOLDINGS PLC

ANNUAL REPORT AND ACCOUNTS 2018

CYANCONNODE

Contents

CyanConnode at a glance

A world leader in Narrowband Radio Frequency (RF) Smart Mesh Networks

CyanConnode is a world leader in the design and development of narrowband RF smart mesh networks that enable the 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 Omnimesh solution, based on IPv6 6LoWPAN, 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 networks and provide excellent penetration through obstructions, such as buildings, in smart metering deployments.

Highlights

Operational highlights

- Revenue of £4.5 million achieved for 2018, being more than three and half times higher than the prior year revenue, (2017: £1.17 million)

- The innovative Omnimesh smart metering platform, launched in June 2018, has generated over £15 million worth of orders during 2018, with £3 million of revenues recognised against those orders to the end of 2018

- The first Licensing Agreement for CyanConnode's smart metering technology was signed with Beijing Instruments, (a well-established Chinese meter manufacturer), potentially worth $4 million (£3.1 million)

- A significant improvement of the financial position with a 43% decrease in operating loss to £6.3 million, (2017: £11.2 million), and adjusted LBITDA improving from £9.9 million in 2017 to £4.8 million in 2018 (see page 11)
- Consolidation of European operations into the Company's centre of excellence based in Cambridge, with knowledge transfer and the closure of Swedish engineering facilities concluded
- 22% reduction in operating costs
- Cash and cash equivalents at the year-end of £4.6 million (2017: £5.4 million)
- Strong growth delivered as CyanConnode continues to establish itself as a world leader in Narrowband Radio Frequency (RF) Smart Mesh Networks

Highlights

Financial highlights

	2018 £m	2017 £m	% Change
Revenue	4.5	1.2	↑ 281%
Gross Margin	2.7	0.5	↑ 452%
Operating costs	(9.1)	(11.7)	↓ 22%
Operating loss	(6.3)	(11.2)	↓ 43%
Depreciation and amortisation	(0.5)	(0.5)	↓ 3%
LBITDA [1]	(5.8)	(10.7)	↓ 45%
Adjusted LBITDA[2]	(4.8)	(9.9)	↓ 51%
Cash	4.6	5.4	↓ 15%

[1] Where "LBITDA" is Loss before Interest, Tax, Depreciation and Amortisation. This is calculated by adding Depreciation and Amortisation back to the Operating loss. Please see page 10 for details.

[2] Where "Adjusted LBITDA" is calculated as LBITDA after the impact of stock impairment, foreign exchange gains/losses and share-based compensation have been removed. Please see page 10 for details.

Post Year End Highlights

- Follow-on order from Larsen & Toubro ("L&T") resulting in incremental increase to order received in May 2018 of £0.4 million
- Follow-on order from HM Power for £0.7 million for smart metering implementation for Swedish utility
- Order received from a new partner in India for a deployment of a hybrid RF smart mesh and cellular communications network
- R&D tax credit cash refund claim of £0.8 million (2017: £1.4 million) to be submitted to HMRC in May 2019 and expected to be paid in June/July 2019.
- New Board appointments made to assist the Company's growth.
- Q1 2019 trading performing well against company budget and in line with expectations, operating costs are consistently below budget averaging £0.48 million per month.

Chairman's Statement

Dear Shareholder

I am delighted to report that revenue for 2018 was £4.5m, being almost four times higher than 2017. In 2018 CyanConnode launched Omnimesh, an Internet Protocol version 6 (IPv6) standards-based smart metering platform, for which the Company has secured over £15 million of new orders to date as well as establishing the Company as a world leader in Narrowband Radio Frequency (RF) Smart Mesh Networks.

Revenue growth has been underpinned by strict cost control, supported by the streamlining of European operations, which has resulted in the lowest operating loss since 2015. These changes will continue to be felt during 2019, with the Company delivering on its order book and monthly cash costs running below budget.

The Company sought further equity in late 2018 to secure funds for working capital, growth and development. Despite an uncertain macroeconomic outlook, the Company raised £5.4 million (gross), including a £1 million investment by the directors, at a share price of 10 pence per share.

I am pleased to report that, as a result of the fundraise and cost control measures, the Company has improved its financial position. I am therefore confident that CyanConnode will flourish in 2019 and that it has sufficient funds in place to deliver on its current business plan.

Nevertheless, with break-even sometime away and with continued uncertainty around the timing of customer receipts, it is prudent that the Company continues to explore options to finance its working capital requirements.

Operational Review

CyanConnode is a world leader in Narrowband Radio Frequency (RF) Smart Mesh Networks that enable cost-effective machine-to-machine ("M2M") communication. The Company's innovative Narrowband RF Smart Mesh Networks offer highly reliable data communication and management of devices including smart meters. Smart metering improves utilities' business efficiency and facilitates the reduction of non-technical losses. Consumers also benefit from smart metering, as it allows them to measure and control their energy consumption.

In 2018 the Company launched Omnimesh, a smart metering platform, which has gained substantial commercial traction. With this award-winning technology and experienced teams, based in Cambridge and India, CyanConnode believes it is ideally placed to capitalise upon increasing global demand for smart metering solutions, which McKinsey estimates is worth US$12 billion and growing at a compound rate of 14% p.a.

As a result of the success of Omnimesh, and its suitability to the markets in which the Company operates, the Company has taken a decision to write down its stock of Optimal modules, originally manufactured for its Bangladesh order. The Company is no longer offering Optimal to its customers and plans to move all existing customers to Omnimesh.

India

During 2018, the Company made significant progress in India. The Indian smart metering market continues to evolve rapidly and due to the experience gained from successful implementations, the opportunities for CyanConnode continue to increase.

In May 2018, the Company announced a £2.5 million order through CyanConnode's Indian strategic Partner, L&T, a US$27 billion global technology, engineering, construction, manufacturing and financial services conglomerate. The order was for a smart metering deployment to Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Ltd ("MPWZ"), an Indian state-owned utility with over 3 million electricity meters, located in Indore, Ujjain and other cities. The Company is pleased to announce that all hardware modules for this project were delivered during 2018, contributing significantly to the revenues for the year.

Chairman's Statement

India (continued)

The launch of the innovative Omnimesh smart metering platform in June 2018, was a significant milestone for CyanConnode. Omnimesh meets the Indian Government's standards for Smart Metering and Advanced Metering Infrastructure and its suitability for the market has been demonstrated by orders to date in excess of £15 million.

In September 2018, the Company announced a £9.1 million order for Omnimesh, from a Tier One Metering Partner for an Indian State-Owned Utility. This is the largest order of its kind in India with 40,000 modules being delivered to the customer by the year end. Furthermore, the Company was delighted to announce in the same month a follow-on five-year support and maintenance contract for the project, totalling £2.3 million.

During the year, CyanConnode completed an order won from Genus Power Infrastructures ("Genus") in 2017. The order included 23,000 RF modules and the end customer was the Indian state-owned utility Uttar Gujarat Vij Company Ltd. This project made a large contribution to revenue. JK Agarwal, Joint MD Genus said "The implementation of CyanConnode's world class communication solution, based on IPv6 narrowband RF mesh network, will meet the technical requirements for AMI in India. CyanConnode's robust networks are proven by its customer deployments globally and Genus looks forward to working with CyanConnode on this and other projects in India. By joining hands with such proven players, we are committed to make Smart Cities and Smart Grid possible in India."

L&T placed further orders for Optimal, CyanConnode's proprietary cost-optimised narrowband RF mesh network based on Internet Protocol version 4 (IPv4), bringing the total number of Optimal RF modules ordered by L&T to 41,735.

CyanConnode was also pleased to see the successful "Go Live" of a 2015 purchase order from Enzen Global Solutions Pvt Ltd, for a large pilot project being implemented by Chamundeshwari Electricity Supply Corporation Limited, Mysore, Karnataka in southwest India.

On 7 June 2018, Power minister R.K. Singh requested that meter manufacturers ramp up production of smart prepaid meters, as the increase in the number of consumers being added to the electricity grid would ensure a steady demand. "Manufacturing of smart prepaid meters will also generate skilled employment for the youth," the statement added. Notably, India is poised to be the second fastest growing adopter of smart metering globally and it is estimated that the number of smart meters will increase from the current level of less than 0.5 million meters to c.250 million meters by 2021. Furthermore, on 24 December 2018, the Indian Government announced it had mandated the use of smart prepaid electricity meters in the country beginning April 2019 and is looking to complete the transition over the next three years[1].

Leading meter manufacturers, such as Genus, HPL Electric & Power and L&T, have integrated CyanConnode's standards-based Omnimesh technology with their IS 16444 smart meters, so as to comply with Bureau of Indian Standards meter protocol. Through these partners CyanConnode expects to see further strong growth. However, although Indian utilities are issuing large 'Requests For Proposals' ("RFPs") for smart meters with RF mesh technology, due to the 2019 Indian General Election, (being held in seven phases from 11 April to 19 May 2019, with the counting of votes on 23 May), the Company does not expect to receive any meaningful orders during H1. Nevertheless, a number of these 'Requests For Proposals' are in the final stages of tender and the Company will keep the market updated on developments during H2 2019.

APAC and Middle East

The smart metering market in the APAC and Middle East is maturing and continues to present a significant opportunity for CyanConnode. In order to obtain a leading position, CyanConnode acknowledges that it is necessary to establish strategic alliances, and it is actively pursuing opportunities in several territories.

In November 2018, the Company announced the signing of two new distribution agreements, one with Adtel Inc to distribute smart metering RF network technology in the Philippines, and the other with DS Technology DWC LLC, a Systems Integration and Distribution Partner for the UAE and Bahrain. These partners will maximise sales potential in several new territories as well as expanding the Company's global distribution channels.

[1] https://economictimes.indiatimes.com/industry/energy/power/power-ministry-mandates-use-of-smart-prepaid-meters-april-2019-onwards/articleshow/67233334.cms

Chairman's Statement

APAC and Middle East (continued)

In December 2018, the Company signed its first Licensing Agreement with Chinese Partner, Beijing Jingybeifang Instrument Co., Ltd ("Beijing Instruments"). Beijing Instruments is a well-established meter manufacturer and, since 1998, it has been a main supplier to the State Grid Corporation of China. The Licensing Agreement provides Beijing Instruments with the right to use CyanConnode's reference designs to manufacture RF mesh modules and gateways, which Beijing Instruments hopes to supply to its customers.

Beijing Instruments will pay a license fee every time a RF module or gateway unit is manufactured. The Licensing Agreement is for a predetermined number of modules and gateways, with a potential value totalling £3.1 million over a two-year period. It is currently envisaged that Beijing Instruments will commence production in H2 2019. Each of these RF modules when deployed in a smart meter will also lead to additional revenue for CyanConnode's Omnimesh smart metering platform.

Under the agreement CyanConnode and Beijing Instruments will collaborate on opportunities in various territories including Afghanistan, Kenya, Nepal, and Sri Lanka. In these territories Beijing Instruments will act as the prime contractor and will supply the hardware with CyanConnode supplying the Omnimesh smart metering platform. This structure reduces CyanConnode's working capital requirements as the Company doesn't need to finance any manufacturing costs.

The previously announced contracts in Iran and Bangladesh are still active although they have suffered delays. The delay to the Iran contract is largely due to geopolitical factors. The Company is in discussion with its partners to find alternative routes to progress these contracts.

Europe

During the period the Company announced two orders from customers in the Nordics. In June 2018 a purchase order worth £0.2 million was received from an existing Partner for a smart metering deployment for a European Utility and the order was completed in 2018. In July 2018 an order for £0.6 million was announced for the supply of an IPv6-based solution with perpetual software licenses and annual maintenance fees, for an initial period of 10 years.

CyanConnode was pleased to see progress of the UK Smart Metering Implementation Programme, with the rollout of SMET2 meters commencing in Q4 2018. More than half a million SMET2 meters have been installed to date and installations are currently running at over seven thousand SMETS2 meters per day. CyanConnode's technology is embedded in the Toshiba SUK2 and SUK3 SMETS2 Communications Hub which enables SMETS2 meters located in a spot that cannot access mobile services, known by mobile operators as "not-spots", to communicate with the Data Communications Centre, (DCC). Toshiba SUK2 and SUK3 SMETS2 Communications Hubs are being deployed under the Telefónica contract with the DCC, for the Central and Southern regions.

Based on an assumption that 10% of SMETS2 meters under the Telefónica contract will be located in a "not-spot", CyanConnode's contract with Toshiba is projected to deliver £24 million of revenues over a 15-year period. Revenue is derived from software licenses and support fees and will increase after the first 500,000 pre-paid licenses have been activated. The first 500,000 licences were purchased from Connode, prior to its acquisition and therefore CyanConnode does not expect material revenue from this contract during 2019. £0.5 million of revenue was recognised for this project in 2018.

In September 2017, CyanConnode announced an order from NIK, a manufacturer of electricity, water and heat meters. The order relates to the deployment of one million smart meters in the Ukraine, over a three-year period. The order continues to suffer from delays. The original order was for Optimal, however following the decision by the Company to no longer supply Optimal, this customer will be moved onto Omnimesh should the order progress. The Company is also in discussion with partners to find alternative routes to progress this contract.

Chairman's Statement

Other Highlights

As highlighted earlier in this statement, in June 2018, the Company officially launched its Omnimesh smart metering platform. Omnimesh utilises Internet Protocol version 6, (IPv6), and narrowband RF mesh technology, (the acronym for the combination being 6LoWPAN), to create a scalable and robust platform that provides cost-effective machine-to-machine communication for smart city solutions. Orders for Omnimesh currently stand at £15.2 million.

In September 2018, the Company announced the consolidation of its European operations. Connode Holding AB, based in Sundbyberg, Sweden, was acquired by Cyan in July 2016, whereupon Cyan changed its name to CyanConnode. During 2018 its operations, including software development and technical support, were transferred to the Company's Cambridge Headquarters. CyanConnode continues to support Nordic customers and develop Nordic opportunities using Swedish staff working as Company contractors.

In 2018, CyanConnode was recognised for its achievements by winning the Frost and Sullivan Company of the Year Award for the Global Smart Metering Industry. In addition, CyanConnode was acknowledged at the Independent Power Producers Association of India awards 2018, for its Omnimesh smart metering platform. In December 2018, the Company was invited to be a keynote speaker at the Future Tech Festival in India; the festival was a major initiative under the India-UK Technology Partnership and was promoted by Prime Ministers Narendra Modi and Theresa May.

In November 2018, the Company raised £5.4 million (gross) by the issue of ordinary shares to new and existing shareholders. The Board of Directors would like to thank shareholders for their continued support and patience during 2018. Your Board's focus for 2019 will be to restore shareholder value by converting existing and new orders into revenue and by carefully controlling operating costs.

Board Changes

In June 2018 Simon Smith stepped down from the Board after a tenure of more than eight years. The Company would like to thank him for his contribution and support during that time. In July 2018, Heather Peacock joined the Board as Group Financial Director and David Johns-Powell joined the Board as Non-Executive Director. In November, Peter Hutton also stepped down and again the Company would like to thank him for his contribution.

In 2019, the Company saw Board changes with the appointment of Chris Jones and Peter Tyler as Non-Executive Directors and the promotion of Heather Peacock to Chief Financial Officer of the Company. Harry Berry stepped down from the Board on 31 March 2019 and will step down from the role of Chief Operating Officer at the next Annual General Meeting in June 2019. Harry will provide ad hoc consultancy services to the Company for a 12-month period from July 2019. Paul Ratcliff will also be stepping down as Non-Executive Director following the next Annual General Meeting.

Your Board is fully focussed on growing its order book whilst carefully controlling operating costs and converting existing and new orders into revenue.

People

With a total investment in excess of £5.1 million, your Board of Directors and Management are fully invested in the business, details of which can be found in the Directors' Remuneration Report on page 32 of the 2018 Annual Report.

I would also like to thank all staff, contractors and partners for their continued efforts in developing, selling and delivering innovative solutions. Over the past few years CyanConnode has built a world class team, and it is their know-how and commitment that will set the Company apart from its competitors.

Chairman's Statement

Post Period End

In February 2019, the Company announced a follow-on order from L&T for the Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Ltd (MPWZ) project, announced in May 2018, worth approximately £0.4 million. The Company is pleased to report that all hardware for this order was delivered before the end of March 2019.

In April 2019, CyanConnode announced a purchase order from a new partner for an Indian state-owned utility, who is also a new end-customer. This order was for a hybrid RF Smart Mesh and Cellular communications network and will be delivered in full during 2019.

Also, in April 2019, the Company announced a follow-on order from HM Power worth approximately £0.7 million. The order leverages the functionality of Omnimesh and will be used for the smart metering of electricity and district heating using long-range RF communications to maximise the resilience of the RF Smart Mesh Network in rural areas.

During the first quarter of 2019, CyanConnode achieved accreditation for 3 ISO standards (9001:2015, 27001 and 14001), all of which endorse the quality of the Company's products.

Outlook

2018 was a significant year for CyanConnode and the launch of the Omnimesh smart metering platform confirmed its world leadership in Narrowband Radio Frequency Smart Mesh Networks that facilitate machine-to-machine communication.

Trading in the first quarter of 2019 is in line with our expectations and operating costs are below budget. CyanConnode will enter H2 2019 with a backlog of orders and as a result, 2019 revenues are expected to show further increase over 2018 revenues, with further improvement of the visibility of revenues going forward.

Given the scale and nature of the Company's projects, changes to the level and timing of sales, or to the timing of customer payments, creates a material uncertainty which could impact the Group's funding requirements. Please see the Financial Review for more information.

CyanConnode looks forward to updating the market with further developments, including new orders for our pioneering technology, as we continue to capitalise on the increasing global demand for smart city solutions.

John Cronin
Executive Chairman
15 May 2019

Financial Review

Heather Peacock, Chief Financial Officer

Financial Highlights

I am pleased to present my first Annual Report since joining the Board in July 2018. The Company is particularly pleased to report revenues in 2018 of £4.5 million, which are substantially higher than FY 2017 revenues (£1.2 million). India was the main contributor to this revenue growth, however Sweden and the Nordics also contributed largely to this figure.

FY 2018 operating loss before tax was a significant improvement over the 2017 loss. This reduction was partly due to the increase in revenues, but also a result of significant reductions in costs during the year following the completion of development of the Company's Omnimesh product in June 2018 and streamlining of costs across the organisation. The Company ended the period with £4.6 million of net cash (2017: £5.4 million), following a successful share placing of £5.4 million (before expenses) in November 2018.

Key Financials

Substantial commercial orders were won during the period, however the revenue and cash generated therefrom during the period remained well below the level required to sustain the business. The extra funds raised in November 2018 provide the Group with incremental financial resources for research and development, growth, general working capital, customer and partner development activities in India and other markets.

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

	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Revenue	4,465	1,171	1,823	272
R&D expenditure (including staff costs)	2,466	4,148	2,913	2,038
Operating loss	(6,320)	(11,153)	(7,939)	(4,907)
LBITDA	(5,848)	(10,664)	(7,683)	(4,878)
Adjusted LBITDA	(4,809)	(9,868)	(5,973)	(4,769)
Cash and cash equivalents	4,564	5,394	3,893	2,461
Average monthly operating cash outflow	(487)	(808)	(588)	(438)
	2017 **FTE**[1]	**2016** **FTE**	**2015** **FTE**	**2014** **FTE**
Average employee headcount	52	54	44	31
Year-end headcount	47	61	52	31

[1]Where FTE is the number of full-time equivalents

Included within the table above are two alternative performance measures ("APMs" – see note 3): LBITDA and adjusted LBITDA. These are additional measures which are not required under IFRS. These measures are consistent with those used internally and are considered important to understanding the financial performance and the financial health of the Company.

Financial Review

Key Financials (continued)

LBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) is a measure of cash generated by operations before changes in working capital. Adjusted LBITDA is a measure of cash generated by operations before changes in working capital and after other items have been adjusted for (see below). It is used to achieve consistency and comparability between reporting periods. These measures are calculated as follows:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Operating loss	(6,320)	(11,153)	(7,939)	(4,907)
Depreciation and Amortisation	472	489	256	29
LBITDA	(5,848)	(10,664)	(7,683)	(4,878)
Stock Impairment	578	55	96	(4)
Share based compensation	445	689	2	102
Acquisition - related costs	-	-	1,564	-
Foreign exchange losses	16	52	48	11
Adjusted LBITDA	(4,809)	(9,868)	(5,973)	(4,769)

Notably from the table above:

- Adjusted loss before interest, tax, depreciation and amortisation ("LBITDA") is now marginally higher than it was in 2015 with the costs of the Connode acquisition in 2016 and the development costs associated with the launch of our Omnimesh standards-based product having been fully absorbed.
- 2018 includes a £578,000 stock impairment charge relating to a write-down of the Optimal stock we are holding as we plan to move all customers to Omnimesh. We believe this will bring significant benefits to our customers and also help us to minimise our support and development costs.
- Share based compensation charges reflect the fair value of share options granted to employees over the vesting period of these options. Please see note 32 for more information.

Key Performance Indicators (KPIs)

The financial key performance indicators for the Group are as set out in the key financial results table above. 2018 revenues were almost four times 2017 comparatives resulting from the delivery of orders won in 2017 and 2018. Research and development expenditure fell by 41% year-on-year following the launch of Omnimesh. As a result, operating losses, LBITDA and adjusted LBITDA reduced to around half of 2017 losses. The Group's average headcount has decreased from 54 in 2017 to 52 in 2018. The change in staffing is better illustrated by year end headcount, which fell by 14. In 2017, we ramped our research and development activities and then in 2018 we reduced this headcount again following the successful launch of Omnimesh.

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

The Group's key focus for 2019 will be further streamlining its processes from order to delivery and continuing to close further orders. A further focus will be ensuring collection of cash from customers as company revenues continue to grow. A number of avenues are also being pursued to secure working capital facilities to help ease cash flows and mitigate against any unforeseen delays in deliveries or customer payments.

Financial Review

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 2020 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 timing of customer payments.

The forecast taken into account in the business plan shows that the Group has sufficient funds to execute its business plan and that there would not be a need for further equity funding. If a more pessimistic scenario were taken and an assumption were taken that no cash is received within the next twelve months from any new orders not currently contracted, and that there were significant delays to receipts from customers, there is a material uncertainty relating to the Group's ability to continue as a going concern. Should the Group experience such downside sensitivities the directors would look at measures such as cost reduction and working capital facilities (including invoice factoring) as ways to conserve cash within the business.

Notwithstanding the material uncertainties described above, the directors have a reasonable expectation that the 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 33 to the financial statements.

Dividends

The directors do not recommend the payment of a dividend (2017: £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 its industry sector and stage of its development.

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Heather Peacock
Chief Financial Officer
15 May 2019

Strategic Report

Statement of scope

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

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

The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006. This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters that are significant to CyanConnode Holdings plc and its subsidiary undertakings when viewed as a complete enterprise.

Principal Activity

The principal activity of the Group during the year was developing and supplying software and hardware for wireless machine-to-machine ("M2M") communication over a narrowband RF smart mesh network. The principal activity of the Company is that of a holding company. Currently the Group has over one million devices installed throughout the world.

Business Model

CyanConnode's business model is based on collaborative partnerships, which engage with customers and markets by establishing eco-systems that include manufacturers and system integrators. Our Partners support the transfer of skills and experience to facilitate customer ownership of hardware and network infrastructure. The Company places a high emphasis on engaging with utility executives, national and regional government officials, standards bodies and regulators. These activities help CyanConnode to better understand and then meet customer and market needs as well to aid policy decisions that can be serviced by all potential suppliers. CyanConnode also supports the 'Make in India' and 'Skill India' initiatives of Prime Minister Modi by encouraging the manufacture and deployment of equipment through local partners, which in turn leads to the generation of in-country wealth. Another prime example of this strategy in action is the Company's Indian business.

The Company aims to build a world-class business by:

- Providing excellent customer service
- Offering customers solutions that result in optimised hybrid networks solutions that lever existing infrastructure
- The manufacture and deployment of equipment using local partners to generate in-country wealth
- Building strong relationships with Utilities, Governments, Standards Bodies and Regulators

The Company aims to generate revenues from:

- Direct sales of hardware and software
- Licence and royalty fees from licensed hardware and software
- Support and maintenance fees
- Related services including project management, integration, installation services and network optimisation

Our Products

Narrowband Radio Frequency (RF) Smart Mesh Networks

CyanConnode is a world leader in the design and development of Narrowband RF Smart Mesh Networks which are principally used today for communicating with smart meters and smart street lighting. By combining Narrowband RF Smart Mesh Networks with Fixed Line, Mobile Signal and Power Line Communication (PLC), utilities and governments can create hybrid networks by leveraging the existing communications infrastructure.

CyanConnode's Narrowband RF Smart Mesh Networks use the license-free Industrial, Scientific and Medical Radio Bands (ISM). This technology forms part of the UK Smart Metering Implementation Programme (UK SMIP). ISM provides more capacity at a lower cost by using considerably less power than the higher frequencies used by CyanConnode's competitors.

Frost & Sullivan, a global research and consulting firm, concluded that "CyanConnode is clearly a torch bearer in the field of narrowband RF mesh technology" and CyanConnode is determined to remain at the forefront of this evolving technology.

Strategic Report

Our Products (continued)

Narrowband Radio Frequency (RF) Modules and Gateways

CyanConnode's Narrowband RF Modules and Gateways can be tuned to customer requirements, for example UK SMIP uses 500 milliwatts giving a communication range of around two kilometres, whilst the Bureau of Indian Standards require 50 milliwatts giving a communication range of around three hundred meters.

Narrowband RF Modules and Gateways are manufactured by contract equipment manufacturers (CEMs) and recently the Company has signed a Licensing Agreement with Beijing Instruments for the right to use CyanConnode's reference designs to manufacture RF Modules and Gateways.

Omnimesh Smart Metering Platform

CyanConnode's multi award-winning Omnimesh smart metering platform facilitates the control and monitoring of devices over hybrid networks. Omnimesh uses Internet Official Protocol Standards version 6 (IPv6) as opposed to the more common Internet Official Protocol Standards version 4 (IPv4). IPv4 provides approximately 4.3 billion addresses and is being swamped by the plethora of devices being added to the internet on a daily basis, whereas IPv6 provides 340.3 undecillion addresses.

As well as being highly secure, Omnimesh is able to monitor and control electricity, gas, heat and water smart meters on the same platform, thereby simplifying utility back office function.

Ominmesh uses the CyanConnode Narrowband RF Smart Mesh Network to communicate with and control smart meters, which have a CyanConnode RF communications module on board. Depending upon customer requirements, RF modules can be tuned to communicate with the RF Smart Mesh Network over distances of a few hundred meters to several kilometres.

Omni IoT

CyanConnode's Omni IoT platform allows customers to mix and match multiple communication systems under a single network management system. This scalable future-proof technology enables cost effective network solutions that provide industry standard security.

Uses include the control of public streetlights, where CyanConnode's RF module is integrated with a dimmable lighting ballast to create smart lighting which can monitor and control street lighting to save energy consumption and reduce lamp replacement costs.

Competitive Position

CyanConnode's Narrowband RF Smart Mesh Networks are self-forming and self-healing and facilitate a cost-effective, build-as-you-go smart network, which enables rapid deployment. By combining Narrowband RF Smart Mesh Networks with Fixed Line, Mobile Signal and Power Line Communication, utilities and governments can create hybrid networks by leveraging the existing communications infrastructure, without the need to invest in costly tower structures to transmit mobile signal.

CyanConnode's Narrowband RF Smart Mesh Networks are inherently low power and use the license free ISM radio bands to give a highly competitive price point for mass deployment in dense housing environments, which are typically found in emerging markets.

CyanConnode's RF modules have been designed to be integrated into new meters or retrofitted to existing meters so as to avoid rip-and-replace costs.

Strategic Report

Market Opportunity

Global environmental concerns are more than ever to the forefront of political discourse and media attention. Governments are seeking ways of responding to what many now view as an imperative for widespread action. Utilities have a significant part to play by reducing inefficiencies in both generation and distribution. The World Bank has demonstrated that it is three times cheaper for utilities to save lost electricity by improving distribution network efficiency, rather than investing in further generating capacity. Smart metering is an important technology as it helps both utilities and consumers, of all types, minimise resource wastage.

CyanConnode's Narrowband RF Smart Mesh Networks can be used to control and monitor energy meters over hybrid networks so as to assist Governments and utilities in meeting their greenhouse gas emissions target. In the UK CyanConnode's technology forms part of the UK Smart Metering Implementation Programme (UK SMIP), which will contribute towards the UK meeting its target of cutting greenhouse gas emissions by at least 40% below 1990 levels.

Operational Review

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
Financial	• The Group is currently loss-making therefore absorbing cash. However, the Directors believe that it has sufficient cash reserves, debtors and future revenues to execute its current business plan and see it through to profitability. There is however a risk that there could be delays to customer deliveries or receipts from customers. • Should the Group wish to explore new territories or business opportunities or models there may be a requirement for additional investment.	• The Directors regularly monitor the financing needs of the Group and react quickly should projects or customer receipts be delayed. The Group actively communicates with its investors and potential investors, including through its nominated adviser and brokers, to update on cash position. In addition to equity funding, the Directors are in dialogue with a number of banks and other organisations to investigate working capital facilities. • New business models are also being explored and some of these such as licensing could be significant sources of funding should they be won.
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 and revenue growth could be slower than anticipated.	• CyanConnode continues to adopt a diversification strategy. This helps to identify targets in additional emerging markets, and new business models allowing for a much wider customer base and less pressure on one specific market/country/business model.
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.	• Research and development costs have reduced significantly however the Group will continue to ensure that its products provide the best possible match to potential and existing customers' requirements. The Group works closely with customers to establish their requirements and evaluates competitor products whilst also researching the market to ensure a market leading product suite.

Strategic Report

Operational Review (continued)

Principal Risks and Uncertainties (continued)

Area of Risk	Description	Mitigating Activity
Macro-economic conditions and political risk (in particular reliance on the Indian smart electricity metering sector)	• Sales cycles to our customers and end utilities in emerging markets can be lengthy and unpredictable and require significant employee time and financial resources with no assurances that a prospective customer will select our products and services. • CyanConnode sales and profits may be impacted by spending slowdowns and/ or increasing inflationary pressures in key territories. • The territories in which we operate are subject to political risk whereby decisions by national or state governments may impact our ability to effectively trade in these markets. • The UK is now in the process of exiting the European Union and this process creates uncertainty for companies based in the UK and exporting into other markets. • India elections due to take place in May 2019 may result in delays of both winning and deploying orders.	• The Group maintains close relationships with its partners and potential end customers in order to respond to the changing demands of the market and maximise contract wins. The Group has employed world class experts in their fields in many areas of the business to respond to market requirements and anticipate the changing demands of the market. • Market data is regularly analysed to provide valuable information on demand changes, allowing the Company to react according to these changes. • We mitigate the political risk through the effective use of local partners in each territory who act as agents or resellers of CyanConnode's technology. • Other than Connode in Sweden, which is part of the European Union, the Group does not trade substantially with any other EU country and therefore the outcome of the exit from the EU is not expected to be significant. Connode Sweden's main customer is Toshiba for the UK SMIP contract, which is billed and paid in UK Sterling.
Laws & Regulations	• The Group's customers operate in a highly regulated business environment and changes in regulation could impose costs on them, which they could pass on to the Group. • 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 Group has implemented an anti-bribery policy in line with the Bribery Act 2010, which sets strict guidelines regarding the offering or receiving of gifts or hospitality. All sales agents and partners are required to sign to confirm agreement to these policies and payments are monitored to ensure compliance with the Act. • The Group takes legal advice and advice from the Department of International Trade regarding regulations when entering new territories.

Strategic Report

Operational Review (continued)

Principal Risks and Uncertainties (continued)

Area of Risk	Description	Mitigating Activity
Business Continuity	• CyanConnode depends on a limited number of contract equipment manufacturers (“CEMs”) for certain critical aspects of the manufacture of its products • In 2018, CyanConnode relied on two major customers for the majority of its revenue	• Strong relationships are maintained with several CEMs. This helps ensure good quality. It also ensures that any issues are communicated and can be mitigated where possible in good time, and can provide the opportunity to switch supplier at short notice. The Company has signed agreements with a new CEM during the year to give more choice should a new CEM be required at short notice. • CyanConnode maintains good relationships with all its customers and continues to maintain its strong support for them. During the year it has integrated with additional meter manufacturers whilst also diversifying its customer base with new licensing agreements.
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 recent years, we commissioned external agencies to carry out penetration testing of our network in order to ensure we meet industry best practice and we believe that this meets the needs of the business today and we plan to repeat this on an annual basis.

Strategic Report

Area of Risk	Description	Mitigating Activity
Currency Exchange	• We are exposed to both translation and transaction risk. In addition, transactions are carried out in currencies other than UK Sterling. • The majority of our revenues are currently denominated in Indian Rupees, whilst the majority of our costs are denominated in UK Sterling.	• Whilst most of the Group's customers are invoiced in Indian Rupees, we also contract the manufacture of our hardware in Indian Rupees and this partially offsets the risk. • Connode Sweden mainly operates in SEK with customers paying and suppliers being paid in the same currency. The only exception is the UK smart metering project which is paid in UK Sterling.
Brexit	The uncertainty surrounding Britain's future relationship with the EU gives risk to a number of risks including: • Higher volatility in currency exchange rates • Potential for more onerous visa requirements for EU nationals working for us in our Cambridge centre for excellence • Potential for higher tariffs on goods and services imported or exported from the UK • Potential for UK economic recession	• Wherever possible we seek to match the currency that our revenues and costs are denominated in. For example, India revenue is denominated in Indian rupees, matching the functional currency and running costs of our Indian entity • At present, it is understood that employees from the EU currently working in the UK will be allowed to continue to do so after the UK leaves the EU. We will continue to monitor this and apply for working visas as necessary • CyanConnode Ltd (the Group's UK trading company) does not import or export goods from Europe, or manufacture in Europe and it is therefore expected that there would be limited effect on tariffs payable by the Company

Employee Matters

Headcount

The average number of employees decreased during 2018 from 54 to 52 with headcount falling to 47 by the year end. Most of this reduction was in R&D headcount following the successful launch of Omnimesh. The management, development and delivery of innovative technologies is made possible through the contribution of highly skilled staff based in the UK, Sweden and India. During the year the Company continued to recruit in India to support Indian customers and partners. The Company intends to closely monitor staffing requirements by region to ensure suppliers and customers are fully supported, while at the same time keeping costs down.

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 29% of the management team that reports to the Board, or 2 out of 7 employees (2017: 40%, or 2 out of 5 employees) and at Board level 20% (2017: 0%). At year end women comprised 21% of total employees across the Group (2017: 15%) or 10 out of a total of 47 employees (2017: 9 out of 61).

Employment Policy

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

Strategic Report

Environmental Policy

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

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

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

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

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

Responsibility:

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

Health and Safety Management

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

The Board is ultimately 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.

Ethical Standards

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. Moreover, the same standards are expected of its suppliers including its contract equipment manufacturers in India and China.

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

John Cronin
Executive Chairman
15 May 2019

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 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.

Heather Peacock - Chief Financial Officer & Company Secretary

Heather joined the Company in November 2008 initially as Financial Controller managing the finance function of the Group. She has a background and qualification in finance and more than 20 years' global financial experience at a senior level, having worked for large international organisations in both the UK and South Africa. More recently Heather has worked as Company Secretary for the Company. She was appointed as Group Finance Director (non-board) at the start of June 2018 and as a board director in July 2018.

Board of Directors

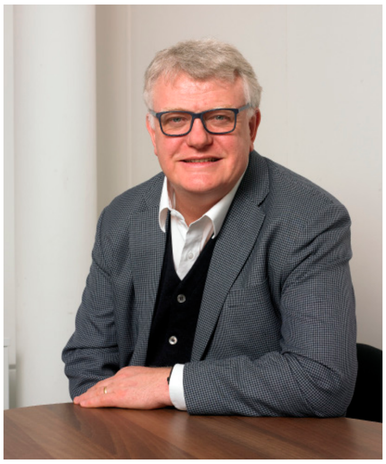
David Johns-Powell - Non-Executive Director

David, who joined the board in July 2018, has over 30 years' experience in Small to Medium Sized Enterprises over a diverse range of industries including, Ceramics, Farming, Insurance, Leisure and Property.

His career started in Ceramics, where he built a manufacturing facility from scratch and by utilizing cutting edge automation, the business became one of the UK's largest manufacturers of ceramic coffee mugs. As well as local markets, product was exported worldwide, and customers included Cadburys, Disney, Safeway and Woolworths.

As a Professional Investor, David is actively involved in several investments which include a 360 key hotel development, a Beach Club, a Wood Modification Plant and a Peak Power Plant.

As well as running his own businesses, David is also a member of the Society of Lloyd's, where he is one of the few remaining members that underwrite insurance on an unlimited liability basis.



Christopher Jones - Non-Executive Director

Chris joined CyanConnode in March 2019. A specialist in licensing models, he has IoT experience and a strong commercial focus. His distinguished career has included holding a wide range of positions at Arm, most recently as Vice President of Commercial Operations for its IoT Services, overseeing product Licensing and SaaS business models.

In 2012, he helped to create Trustonic (a joint venture between three mobile, device and IoT security leaders - Arm, Gemalto and G&D). As Chief Operating Officer at Trustonic, Chris was responsible for overseeing the formation of the company and the implementation of its strategic direction, managing core functions of legal, HR, finance, IT and facilities. From 2004 until 2012, he was Vice President of Licensing at Arm. As such, he was responsible for Arm's CPU/Soc product licensing and revenue management.

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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 information management practice. He is a now multi-disciplined, entrepreneur with a wealth of practical experience in creating shareholder value by growing businesses and has been involved in a number of corporate transactions resulting in premium returns for investors. This includes the founding of his own software and services CRM company which he later sold for a substantial sum to a UK plc.

A highly successful Chairman and director in the SME environment, Paul has also held 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 Tyler – Non-Executive Director

Peter is a fellow of the Chartered Institute of Certified Accountants. He has held a number of roles in finance, mainly in the pharmaceutical sector, and is well versed in growing businesses and creating shareholder value. Peter has also been involved in a number of charities where his role has been building them up, putting in place structures, processes and teams and funding to satisfy the demands of the programmes.

Peter holds the role of Chairman of the Audit Committee and is a member of the Remuneration Committee.

Corporate Governance Statement

Statement Of Compliance With the QCA Corporate Governance Code
As an AIM quoted company, we recognise the importance of applying sound governance principles in the successful running of the Group. Given the size and nature of the Company and composition of the Board, we have formally adopted the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies (the QCA Code) and will report annually on our compliance with the QCA Code in our Annual Report.

The sections below set out how we currently comply with the ten principles of the QCA Code.

1. **Establish a strategy and business model which promote long-term value for shareholders**
   The strategy and business operations of the Group are set out in the Strategic Report on pages 13 to 19.

   The Executive Directors are responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group's strategy for Board approval and then executing the approved strategy.

2. **Seek to understand and meet shareholders needs and expectations**
   The Group seeks regular dialogue with both existing and potential new shareholders, ensuring our strategy, business model and performance are clearly understood as well as to understand the needs and expectations of shareholders. The Executive Chairman and Chief Financial Officer meet regularly with investors and analysts via investor roadshows, investor presentations and events and hosting tours of our development sites in order to provide them with updates on the Group's business and obtain feedback regarding the market's expectations of the Group.

   The Board invites communication from its private investors and encourages participation by them at the Annual General Meeting (AGM). All Board members present at the AGM are available to answer questions from shareholders. Notice of the AGM is in excess of 21 clear days and the business of the meeting is conducted with separate resolutions, voted on initially by a show of hands and with the result of the voting being clearly indicated. The results of the AGM are announced through a regulatory information service.

   The normal channel of communication with shareholders is via our Chief Financial Officer and Executive Chairman. Our Non-Executive Director, Chris Jones is available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact would be inappropriate. Details relating to this can be found on our website at https://cyanconnode.com/investors/governance/

3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success**
   Our technology has been designed to address social problems, particularly in emerging territories such as India where there are significant losses to the government in the electricity sector. The technology is low-cost, low-power and seeks to prevent theft from electricity or tampering with electricity meters.

   The Group is mindful of its corporate social responsibilities and the need to build and maintain strong relationships across a range of stakeholder groups is a key principle in what we do. Engaging with our stakeholders allows us to create a positive legacy and create strong stakeholder relationships. Our project teams engage with stakeholders throughout the development life cycle to help enrich communities.

   Our employees are at the heart of our business and we consistently strive to ensure they have the opportunity to develop in a job they enjoy. We embrace diversity and employ people from a range of cultures and backgrounds across the group. Further information on our diversity policy can be found on page 18. The Group's revenue is dependent on delivering complex projects to specific markets and therefore ensures that cross-functional teams of senior employees work together and with customers to ensure the successful integration of its products and technologies.

Corporate Governance Statement

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

Our customers are key to the Group's success. The sales and delivery teams obtain feedback from customers regarding current products, product requirements and customer service through regular interactions with customers mainly comprising face to face meetings.

Our Environmental policy and Health and Safety Management policy, see page 19, provides information on the Company's approach to the environment. The Group has recently been awarded accreditation for the ISO14001 standard.

CyanConnode fully abides by the Modern Slavery Act 2015.

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

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to mitigate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the Group's significant risks and is regularly reviewed by the Board.

The internal control procedures are delegated to Executive Directors and senior management in the Group, operating within a clearly defined departmental structure. The Board regularly reviews the internal control procedures in light of the ongoing assessment of the Group's significant risks.

On a monthly basis, management accounts, including a comprehensive cash flow forecast, are reviewed by the Board in order to provide effective monitoring of financial performance. At the same time the Board considers other significant strategic, organisational and compliance issues to ensure that the Group's assets are safeguarded and financial information and accounting records can be relied upon. The Board formally monitors monthly progress on each development.

Please see pages 15 to 18 for a summary of the principal risks and uncertainties facing the Group, as well as mitigating actions.

The Group takes security of personal data seriously and ensures compliance with the GDPR which came into effect on 25 May 2018. The Group's privacy policy can be found on the Company's website at https://cyanconnode.com/about/privacy-policy/

The Group also takes security of all data and its intellectual property very seriously and has recently received accreditation for the ISO27001 standard.

Quality of product and process are important to the Group. The Group has been accredited for ISO9001:2008 since 2008 and has recently received accreditation for the ISO9001:2015 standard.

The Company has adopted an Anti-Bribery policy which can be found on the Company's website at https://cyanconnode.com/investors/bribery-act/ The Group Bribery Officer ensures that all partners and agents working for the Group sign acceptance of the terms of this policy prior to engagement with any Group company.

Corporate Governance Statement

5. **Maintain the Board as a well-functioning, balanced team led by the Chair**
   The Company and Group are managed by a Board of directors chaired by John Cronin. The Board is responsible for taking all major strategic decisions and also addressing any significant operational matters. In addition, the Board reviews the risk profile of the Group and ensures that an adequate system of internal control is in place. A formal schedule of Matters Reserved for the Board was adopted in March 2018 and will be reviewed annually.

   It has been agreed that the Board will at any time consist of either two or three Executive Directors and three Non-Executive Directors. Two of the Non-Executive Directors are considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the QCA Code. David Johns-Powell is only considered as non-independent due to his significant shareholding in the Company.

   The Non-Executive Chris Jones is available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact would be inappropriate.

   The Board has sufficient members to contain the appropriate balance of skills and experience to effectively operate and control the business. No one individual has unfettered powers to make decisions.

   The Roles of the Chairman and Chief Executive are not separate, however following consultation with the company's Nominated Adviser it is believed that this situation is appropriate for the Group's current size and stage of growth. This position is reviewed regularly and discussed with advisers. The Executive Chairman's main responsibility is the leadership and management of the Board and its governance. The Group has a CEO of India to manage the Indian operations. Engineering and operations are managed by the VP of Operations and Engineering. These three executive managers are very experienced and it is therefore felt that there is no need for a separate Chief Executive Officer role.

   The Executive Directors are responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group's strategy for Board approval and executing the approved strategy.

   The Board meets regularly, at least 9 times a year and more frequently if necessary. In addition to this the Board attends regular strategy meetings with senior members of staff presenting on areas of the business and business strategy.

6. **Ensure that between them, the directors have the necessary up-to-date experience, skills and capabilities**
   The Board considers that the skills, experience and knowledge of each director gives them the ability to constructively challenge strategy and decision making and scrutinise performance. Their biographical details are set out on the Company's website at https://cyanconnode.com/about/team/

   As the business has developed, the composition of the Board has been under review to ensure that it remains appropriate to the managerial requirements of the group. One third of the directors retire annually in rotation in accordance with the Company's Articles of Association. This enables the shareholders to decide on the election of the Company's Board.

   The Board takes decisions regarding the appointment of new directors as a whole and this is only done following a thorough assessment of a potential candidate's skills and suitability for the role. During the course of the year, directors received updates from the Company Secretary and external advisers, where relevant, on corporate governance matters, and corporate governance is an agenda item for all Board Meetings where updates will be discussed.

   Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Company Secretary who is responsible to the Board for advice on corporate governance matters.

Corporate Governance Statement

7. **Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**
The Board has recently completed an evaluation of Board performance and effectiveness. The evaluation covered the following areas:

    - Board and committee composition (mix of skills, experience, and adequate succession planning);
    - Board communication;
    - Board responsibilities;
    - Decision processes;
    - Board induction and training; and
    - Meeting arrangements and processes.

    The effectiveness of the Board and its committees will be kept under review in accordance with corporate governance best practice and at a minimum on an annual basis.

8. **Promote a corporate culture that is based on ethical values and behaviours**
We recognise that it is our people who make us different, and we strive to recruit, retain, engage and develop the best. We continue to encourage our unique and supportive culture, which we believe sets us apart from competitors.

    Our comprehensive set of policies and procedures cover all of our operations. They are constantly updated and communicated to relevant employees and everyone else working on our sites. Details of these policies can be found on pages 18 and 19 of the Annual Report.

9. **Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**
The Board has an Audit Committee, a Remuneration Committee and a Nominations Committee to oversee and consider issues of policy outside main Board meetings. All recommendations for appointments to the Board are however considered by the Board as a whole.

    Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities, adopted by the Board in March 2018.

    Board committees are authorised to engage the services of external advisers as they deem necessary in the furtherance of their duties at the Company's expense. Details concerning the composition and meetings of the committees are contained in the Annual Report and on the Company's website at https://cyanconnode.com/investors/governance/

10. **Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**
Communications with shareholders is through the Annual Report and Accounts, full-year and half-year announcements, periodic market announcements (as appropriate), the AGM, investor presentations, one-to-one meetings and investor road shows.

    The Group's website www.cyanconnode.com is regularly updated and users can register at https://cyanconnode.com/investors/shareholder-information/investor-alert/ to be alerted when announcements or details of presentations and events are posted on the website. Annual reports and notices of meetings for at least the last five years can be found on the Group's website.

Corporate Governance Statement

Board Composition and Responsibility

At 31 December 2018 the Board comprised five directors, including the Executive Chairman, the Chief Operating Officer, the Chief Financial Officer and two independent non-executive directors. Three of the five directors in post at 31 December 2018 had served throughout the year.

Name	Role	Appointed	Resigned	In post 1 Jan 2018	In post 31 Dec 2018
Executive					
John Cronin	Executive Chairman	20/03/12		Yes	Yes
Harry Berry	Chief Operating Officer	16/05/14	31/03/19	Yes	Yes
Heather Peacock	Chief Financial Officer*	25/07/18		No	Yes
Non-executive					
Paul Ratcliff		01/01/16		Yes	Yes
William David Johns-Powell		25/07/18		No	Yes
Christopher Jones		19/03/19		No	No
Peter Tyler		19/03/19		No	No

* Heather Peacock has also held the role of Company Secretary since September 2013.

Recent Board Changes:

An IoT specialist who has previously held senior roles at ARM and Trustonic, Chris Jones brings a wealth of experience in licensing and “software as a service” (SaaS) business models which will be invaluable as the Group implements its new licensing models.

Peter Tyler is a fellow of the Chartered Institute of Certified Accountants and has had a successful career in scaling-up SMEs. His particular focus is financial growth and driving shareholder return.

Harry Berry was appointed to the Board on 16 May 2014 as a non-executive director. In July 2017, he was appointed as Chief Operating Officer (COO) for a two-year tenure. In this time, he has overseen the successful development and launch of our Omnimesh product and has established world-class engineering team. He retired from the Board on 31 March 2019.

Paul Ratcliff will be stepping down from the Board following the Company’s AGM in June 2019. Under his stewardship, the Company has successfully put in place quality-focused procedures and controls: achieving ISO certification for ISO standards ISO9001:2015, ISO27001 and ISO14001.

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 least on a quarterly basis 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.

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

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

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

Corporate Governance Statement

Board Subcommittees
The Board has three subcommittees:

Audit committee: Peter Tyler (Chairman), Chris Jones

Remuneration committee: Chris Jones (Chairman). Peter Tyler

During the year, Paul Ratcliff (Chairman) and Peter Hutton were the members of the remuneration committee and they oversaw the reductions to Directors' remuneration in June 2018. Peter Hutton resigned 5 November 2018. From then until 19 March 2019 any remuneration decisions were put by Paul Ratcliff to the full board, excluding the director concerned, for full board approval.

Nominations committee: David Johns-Powell (Chairman), John Cronin, Peter Tyler and Chris Jones

Please see table on previous page for full list of Directors and changes in their appointments between 31 December 2018 and 15 May 2019.

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 actively engages with its shareholders on regular basis, with importance being placed on clear, timely communications. This is in the form of open presentations at the Annual General Meeting and further private presentations thereafter to fund managers, analysts, and institutional investors. Information is posted on the Company's web site, www.cyanconnode.com. Please take a look at the comprehensive Investor Relations section on this website which is regularly updated. John Cronin and Heather Peacock are the directors 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 2018.

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 2020 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 timing of customer payments.

The forecast taken into account in the business plan shows that the Group has sufficient funds to execute its business plan and that there would not be a need for further equity funding. If a more pessimistic scenario were taken and an assumption were taken that no cash is received within the next twelve months from any new orders not currently contracted, and that there were significant delays to receipts from customers, there is a material uncertainty relating to the Group's ability to continue as a going concern. Should the Group experience such downside sensitivities the directors would look at measures such as cost reduction and working capital facilities (including invoice factoring) as ways to conserve cash within the business.

Notwithstanding the material uncertainties described above, the directors have a reasonable expectation that the Group can continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of this report.

Financial Risk Management Objectives and Policies

Details of the Group's financial risk management objectives and policies are set out in note 33 of the financial statements.

Dividends

The directors' dividend policy is set out in the Financial Review on page 12.

Share capital and capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 25. At 31 December 2018, the Company had one class of ordinary shares of 2.0 pence each, which carried no right to fixed income and represented 100% of the issued share capital of the Company. Each share carried the right to one vote at general meetings of the Company. The Company's capital structure consisted only of issued share capital, which it manages to maximise the return to shareholders.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

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

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

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Corporate Governance Statement on page 23.

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

Directors' Report

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

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

Enterprise Investment Scheme (EIS)
During 2018, CyanConnode's shares qualified under the Enterprise Investment Scheme (EIS) which is a scheme that provides tax incentives in the form of a variety of income tax and capital gains tax reliefs to investors who invest in certain qualifying companies. This qualification is subject to the Company's gross assets being below £15m. At times the gross assets may go above £15m depending largely on cash reserves. Since CyanConnode's incorporation, a number of high net worth individuals looking to build tax efficient EIS portfolios have invested in CyanConnode and received these tax reliefs.

Following a number of recent changes to the EIS rules, the Directors have had confirmation from HMRC that the Company's shares do still qualify under this scheme, and that the Company qualifies as a knowledge-intensive company which means it is granted a higher threshold and a longer time period during which EIS relief may be granted to investors. The Directors expect this to remain the case until the thresholds under the new rules are reached. The Directors do not expect these thresholds to be met within the twelve months following this report.

During 2018 the Company issued shares to the value of £1.2m under the EIS scheme and has lifetime headroom of £4.7m remaining.

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

Executive Directors
John Cronin (Executive Chairman)
Harry Berry (Chief Operating Officer) – resigned 31 March 2019
Heather Peacock (Chief Financial Officer) (appointed to the Board on 25 July 2018)

Non-Executive Directors
Paul Ratcliff
William David Johns-Powell (appointed to the Board on 25 July 2018)
Simon Smith (left office on 14 June 2018)
Peter Hutton (left office on 5 November 2018)
Chris Jones (appointed 19 March 2019)
Peter Tyler (appointed 19 March 2019)

Paul Ratcliff will retire at the next Annual General Meeting and does not offer himself for re-election.

The interests of the directors in the shares of the Company are shown in the remuneration committee report on page 35.

Directors' Report

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 £2,466,104 (2017: £4,148,238), including related staff costs.

Significant Holdings

The Company had been notified of the following voting rights as a shareholder in the Company at 15 May 2019:

Name	Percentage of voting rights and issued share capital	Number of ordinary shares
William David Johns-Powell	9.64%	17,583,490
Canaccord Genuity Group inc	7.54%	13,746,477
Herald Investment Management Limited	6.80%	12,401,579
Nightingale Investment Co Limited	4.60%	8,382,352
Biggles Enterprise Limited	4.57%	8,333,333

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

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 68 days (2017: 63 days).

Charitable and Political Donations
Charitable donations for the year were £nil (2017: £nil) and no political donations were made during the year (2017: £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 2019

Directors' Remuneration Report

Unaudited Information

Remuneration Committee

The Company has established a Remuneration Committee. Paul Ratcliff served as chairman of the Remuneration Committee throughout the period. Chris Jones took over the role of Chairman of the Remuneration Committee upon his appointment on 19 March 2019.

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

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

Remuneration Policy for the Executive Directors

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

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

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

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

All Directors are encouraged to invest in the Company. This table shows the £5.1m they have invested thus far (see page 34 for more details).

	Investment in 2018 £000	Total Investment to date £000	Annual salary and fees £000	Total Investment as % of Remuneration
John Cronin	100	986	235	420%
Harry Berry	20	258	125	206%
David Johns-Powell	750	3,759	-	n/a
Paul Ratcliff	-	46	30	153%
Heather Peacock	10	75	130	58%
Total	880	5,124	520	985%

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 remuneration policy for Executive Directors and the Group as a whole. In addition, it relies on objective research, which gives up-to-date information on a comparator group of companies.

Directors' Remuneration Report

Unaudited Information (continued)

Benefits-in-Kind

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

Annual Bonus Payments

Annual bonuses are awarded at the discretion of the Remuneration Committee as an incentive and to reward performance during the financial year pursuant to specific performance criteria including cash collection and revenue growth. In exercising its discretion, the Committee takes into account the strategic objectives set by the Board to ensure these are being met. These objectives will evolve as the business grows and are expected to change year on year according to business requirements. During 2018, the objectives were based on £7m revenues being achieved. No bonus payments were made to Directors for 2018 (2017: £241,690).

Directors' Share Options

Full details of the directors' options over ordinary shares of 2.0p are set out below:

Director	Grant Date	Expiry Date	Exercise Price £	As 31 December 2018 Number	As 31 December 2017 Number
John Cronin	17 November 2017 25 January 2018	17 November 2027 25 January 2028	0.336 0.29	558,101 200,000	558,101 -
				758,101	558,101
Harry Berry	17 November 2017 11 December 2017	17 November 2027 11 December 2027	0.336 0.42	735,174 71,423	735,174 71,423
				806,597	806,597
Heather Peacock	17 November 2017 11 December 2017	17 November 2027 11 December 2027	0.308 0.40	619,424 25,000	n/a n/a
				644,424	n/a
Paul Ratcliff	11 December 2017	11 December 2027	0.42	71,633	71,633
				71,633	71,633

* n/a - Heather Peacock was appointed Director in 2018

Share options have a life of 10 years. When a director leaves the Company, he or she will be entitled to exercise any vested options for between three months and one year after leaving the Company. Any options not exercised during this period will then lapse.

Directors' Remuneration Report

Directors' Share Options (continued)

Joint Share Ownership Plan

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

During 2018 no JSOP shares were granted to any directors of the Company. At 31 December 2018, shares held by directors under this scheme were as follows:

Director	Grant Date	Expiry Date	Participation Price £	At 31 December 2018 Number	At 31 December 2017 Number
John Cronin	23 October 2017	23 October 2022	0.4964	3,219,200	3,219,200
	23 October 2017	23 October 2022	0.333	1,382,425	1,382,425
				4,601,625	4,601,625
Harry Berry	23 October 2017	23 October 2022	0.3904	2,076,085	2,076,085
	23 October 2017	23 October 2022	0.333	925,303	925,303
				3,001,388	3,001,388
Heather Peacock	23 October 2017	23 October 2022	0.434	267,396	n/a
	23 October 2017	23 October 2022	0.333	296,568	n/a
				563,964	n/a

* n/a - Heather Peacock was appointed Director in 2018

JSOP shares have a life of 5 years. When a director leaves the Company, he or she will be entitled to keep the vested shares until the expiry dates and any unvested shares will be brought back into the Employee Benefit Trust within 90 days of the director leaving the Company.

Directors' Remuneration Report

Directors' Share Options (continued)

Directors' Interests in Shares in the Company

Director	Shares	£'000
John Cronin		
As at 1 January 2018	2,213,467	856
Purchased during the period	1,200,000	130
As at 31 December 2018	3,413,467	986
Harry Berry		
As at 1 January 2018	624,219	238
Purchased during the period	200,000	20
As at 31 December 2018	824,219	258
Heather Peacock		
As at 25 July 2018	178,255	65
Purchased during the period	100,000	10
As at 31 December 2018	278,255	75
Paul Ratcliff		
As at 1 January	162,734	46
Purchased during the period	-	-
As at 31 December 2018	162,734	46
William David Johns-Powell		
As at 25 July 2018	10,083,490	3,009
Purchased during the period	7,500,000	750
As at 31 December 2018	17,583,490	3,759
Total		
As at 1 January 2018	3,000,420	1,140
Increases during the period	19,261,745	3,984
	22,262,165	5,124

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

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. Neither John Cronin nor Harry Berry are members 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 twelve months’ notice by either party.

Name of Director	Date of contract
John Cronin	20 March 2012
Heather Peacock	25 July 2018
Paul Ratcliff	1 January 2016
William David Johns-Powell	25 July 2018
Chris Jones	19 March 2019
Peter Tyler	19 March 2019

Non-Executive Directors

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

Paul Ratcliff	£40,800
Peter Hutton	£26,250
William David Johns-Powell	£nil

Directors' Remuneration Report

Directors' Emoluments

Name of Director	Salary £	Fees £	Pension £	Private Health Insurance £	Total for 2018 Services £	2017 Total £
Executive						
John Cronin (Note 1)	30,000	205,000	-	-	**235,000**	495,000
Harry Berry (Note 2)	125,000	-	-	3,460	**128,460**	193,420
Heather Peacock (Note 3)	69,231	-	2,750	525	**72,506**	-
Non-Executive						
Peter Hutton	26,250	-	-	-	**26,250**	22,500
Paul Ratcliff (Note 4)	40,800	-	1,500	-	**42,300**	34,100
John Read	-	-	-	-	**-**	15,000
Simon Smith	26,154	38,750	1,308	-	**66,212**	228,778
Total	**317,435**	**243,750**	**5,558**	**3,985**	**570,728**	**988,798**

Note 1
In June 2018 John Cronin agreed to receive a reduction to his total rate of pay, including bonus, for the 12 month period from July 2018 to June 2019. The reduced rate of pay resulted in basic salary (including fees) of £170,000 and a bonus of £70,000. The bonus was to be paid in shares based on revenue of £7 million being achieved for the calendar year ending 31 December 2018. This revenue was not achieved and the bonus was not paid.

Note 2
In June 2018 Harry Berry agreed to receive a reduction to his rate of pay, including bonus, for the 12 month period from July 2018 to June 2019. The reduced rate of pay resulted in basic salary of £100,000 and a bonus of £50,000. The bonus was to be paid in shares based on revenue of £7 million being achieved for the calendar year ending 31 December 2018. This revenue was not achieved and the bonus was not paid.

Note 3
Heather Peacock was appointed Director in July 2018. Her salary is pro-rated salary for six months to 31 December 2018 (annual equivalent £130,000), plus £4,231 paid for untaken holiday.

Note 4
Paul Ratcliff received £10,800 for additional services provided relating to the Company's ISO accreditations.

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 2019 and signed on its behalf by:

Paul Ratcliff
Chairman of the Remuneration Committee

Directors' Responsibilities 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 or 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 2019

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

Report on the audit of the financial statements
Opinion

In our opinion:

- **the financial statements of CyanConnode Holdings plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the parent company balance sheet;
- the parent company statement of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 35.

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relation to going concern

We draw attention to note 3 in the financial statements, which indicates that the group incurred a net loss of £5.38 million during the year ended 31 December 2018. The directors have identified that a certain level of sales is required to be achieved as well as the timing of cash receipts from customers to allow the Company to continue trading without seeking additional funding.

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

Material uncertainty relation to going concern (continued)

In response to this, we:

- assessed the design and implementation of the key controls in place around the forecasting process;
- performed a retrospective review of actual performance to prior year forecast and budget;
- obtained cash flow forecasts prepared by management, which were tested for mathematical accuracy;
- challenged management estimates and assumptions included in the forecast, such as revenue growth and timing of cash receipts, against external data and to the Board approved budgets as well as the appropriateness of the sensitivities developed by management;
- considered the impact of Brexit on forecasted cash flows; and
- considered the appropriateness of the disclosure contained within note 3 to the financial statements which set out the material uncertainties identified.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition – new significant contracts during the year • Impairment of intangible assets and goodwill • Going Concern (see material uncertainty relating to going concern section) • Inventory provisioning
Materiality	The materiality that we used for the group financial statements was £0.38 million which was determined on the basis of a combination of loss before tax and total expenses measures. This represents approximately 6.0% of loss before tax and 4.2% of total expenses.
Scoping	The scope of our audit was driven by our risk assessment and understanding of the business. This consisted of four components subjected to full scope audits and two components subjected to analytical procedures at group level.
Significant changes in our approach	There have been no significant changes in our approach in the current year.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Revenue recognition - new significant revenue contracts	
Key audit matter description	We consider there to be a key audit matter with respect to new significant revenue contracts arising in the period. Revenue earned under new contracts in the year was £3.06 million. This is due to the judgement involved in recognising revenue in accordance with IFRS 15: Revenue from Contracts with Customers across contracts that contain multiple elements including both products and services. This is dependent on the identification of the components contained within the contract and the allocation of prices to the individual components. The accounting policy is disclosed in note 3 to the financial statements. An analysis of the Group's revenue is provided in note 5 to the financial statements.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of the key controls addressing the risk. We obtained an understanding of whether the revenue recognition policies have been applied across the group and considered if there were any new significant revenue contracts in the period. We also assessed whether the recognition of revenue is in line with IFRS 15. For new significant contracts identified, we reviewed management's assessment of the identification of the components contained within the contract, the allocation of prices to the individual components and the period over which revenue was recognised. We also reviewed signed agreements for each selected project/contract and agreed key terms and amounts to management's paper and calculations for revenue to be recognised in the prior period, current period and future periods. In addition to the above, we reviewed and challenged the disclosures in the financial statements, including the relevant disclosure in the critical accounting judgements and key sources of estimation uncertainty disclosure.
Key observations	Based on the audit procedures performed, we concluded that revenue recognition in respect of new significant revenue contracts is in line with the group's accounting policy and IFRS 15.

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

Impairment of intangible assets and goodwill	
Key audit matter description	The group has a significant goodwill balance of £1.93 million as at 31 December 2018 and 2017 which arose on the acquisition of Connode in 2016. The group also holds acquisition-related intangibles with a balance of £5.05 million (2017: £5.47 million) at the balance sheet date. Management performs an impairment review in accordance with IAS 36 Impairment of assets. There is a risk that the key assumptions such as revenue growth and discount rates used in the impairment review model are not appropriate and therefore this affects the calculation of the value in use leading to an incorrect conclusion as to whether goodwill and intangible assets arising from the acquisition are impaired. Note 3 to the financial statements sets out the group's accounting policy for business combinations and Note 16 to the financial statements outlines the key assumptions involved in the goodwill impairment assessment and the reasonable possible change disclosure due to the high degree of sensitivity.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of the key controls addressing the risk. We applied sensitivities to calculations prepared by management to test uncertain variables against headroom to assess the risk of impairment. We obtained cash flow forecasts prepared by management and challenged management estimates included in the forecast, such as revenue growth, through challenging the expected future market growth, historical forecasting accuracy, commercial challenges and future strategy; working capital assumptions; and the discount rates applied to the cash flows. The net present value of the forecast cash flow was compared to the carrying value of acquisition goodwill. In addition, consideration was also made in light of our knowledge of the business and any other information to identify any indicators of impairment for acquisition related intangibles. We used internal valuations specialists to estimate an appropriate discount rate with reference to market data and compared that to the rate used by management.
Key observations	Based on the audit procedures performed, we concurred that the assumptions used in the impairment review model are appropriate and applied in line with the principles of IAS 36. We considered the reasonable possible change disclosure included in note 16 to be appropriate.
Inventory provisioning	
Key audit matter description	We consider there to be a key audit matter in respect of the valuation of inventory in CyanConnode Limited. This is due to the degree of judgement and estimation involved in stating inventory at the lower of cost and net realisable value. At the year end management provided for a total of £0.69 million (2017: £0.12 million) of the CyanConnode Limited inventory balance of £1.02 million (2017: £1.23 million). The accounting policy is disclosed in note 3 and inventory balances are disclosed in note 20 to the financial statements.

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

Impairment of intangible assets and goodwill (continued)	
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of the key controls addressing the risk. Following the provision being taken by management we obtained their considerations of the valuation of the inventory, including the remaining amount not covered by this provision and the possible alternative uses. We challenged management's assumptions used, such as the ability to utilise and sell the inventory elsewhere and the period of time before the technology becomes outdated, using our knowledge of the business, consideration of any indicators of contradictory evidence and obtaining supporting evidence to substantiate the alternative options for use of the inventory as set out by management, including any cost of conversion that may be required. In addition, we considered the appropriateness of the disclosure contained within the key accounting estimates and uncertainties to the financial statements which set out the key uncertainties around the valuation of inventory.
Key observations	Based on the audit procedures performed, we concluded that inventory provisioning is appropriate. We consider the critical judgement disclosure in relation to this to be appropriate.

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£0.38 million (2017: £0.37 million)	£0.16 million (2017: £0.14 million)
Basis of determining materiality	Our materiality was determined on the basis of a combination of loss before tax and total expenses measures. This represents approximately 6.0% (2017: 3.3%) of loss before tax and 4.2% (2017: 3.2%) of total expenses.	Parent company materiality equates to 1.1% (2017: 1.0%) of net assets, which is capped at 40% of group materiality.
Rationale for the benchmark applied	A combination of loss before tax and total expenses benchmarks has been selected as the group remains in a development phase where significant expenditure and losses are incurred reflecting the group's investment in research and development activities as the group looks to secure future contracts.	Net assets is considered the most appropriate benchmark as it is the key performance metric for users of the financial statements for CyanConnode Holdings plc company only. Materiality has been capped at £0.16 million (2017: £0.14 million) for the purpose of the Group audit.

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

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.019 million (2017: £0.014 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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

The four components subject to a full audit account for 96% (2017: 99%) of the group's revenue, 98% (2017: 98%) of the group's loss before tax and 97% (2017: 94%) of the group's net assets. Our audit work for each component was executed at levels of materiality applicable to each individual component which were lower than group materiality. The component materiality ranges between £0.15 million to £0.29 million (2017: £0.14 million to £0.28 million).

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

	Revenue	Loss before tax	Net Assets
Full audit scope	96%	98%	97%
Review at group level	4%	2%	3%

Other information

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

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Julian Rae (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
15 May 2019

Consolidated income statement

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Continuing operations			
Revenue	5	4,465	1,171
Cost of sales		(1,724)	(674)
Gross profit		**2,741**	497
Other operating costs		(8,589)	(11,161)
Amortisation / depreciation		(472)	(489)
Total operating costs		**(9,061)**	(11,650)
Operating loss		**(6,320)**	(11,153)
Investment income	10	13	16
Finance costs	11	(2)	(6)
Loss before tax		**(6,309)**	(11,143)
Tax credit	12	927	1,402
Loss for the year	**7**	**(5,382)**	(9,741)
Loss per share (pence)			
Basic	13	(4.26)	(10.18)
Diluted	13	(4.26)	(10.18)

Consolidated statement of comprehensive income

For the year ended 31 December 2018

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

	2018 **£**	2017 £
Loss for the year	**(5,382)**	(9,741)
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**54**	46
Total comprehensive income for the year	**(5,328)**	(9,695)

Consolidated balance sheet

At 31 December 2018

	Note	2018 £000	2017 £000
Non-current assets			
Intangible assets	14	**5,048**	5,469
Goodwill	16	**1,930**	1,930
Investments	19	**44**	48
Property, plant and equipment	17	**73**	83
Total non-current assets		**7,095**	7,530
Current assets			
Inventories	20	**319**	1,128
Trade and other receivables	21	**4,827**	3,019
Cash and cash equivalents	22	**4,564**	5,394
Total current assets		**9,710**	9,541
Total assets		**16,805**	17,071
Current liabilities			
Trade and other payables	23	**(1,994)**	(2,248)
Total current liabilities		**(1,994)**	(2,248)
Net current assets		**7,716**	7,293
Non current liabilities			
Deferred tax liability	24	**(690)**	(858)
Total non current liabilities		**(690)**	(858)
Total liabilities		**(2,684)**	(3,106)
Net assets		**14,121**	13,965
Equity			
Share capital	25	**3,648**	2,559
Share premium account		**69,515**	65,565
Own shares held	26	**(3,253)**	(3,253)
Share option reserve	27	**1,761**	1,316
Translation reserve	28	**(76)**	(130)
Retained losses	29	**(57,474)**	(52,092)
Total equity being equity attributable to owners of the Company		**14,121**	13,965

The financial statements of CyanConnode Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 15 May 2019. They were signed on its behalf by:

John Cronin
Director

Consolidated statement of changes in equity

At 31 December 2018

	Share Capital £000	Share Premium £000	Own Shares Held £000	Share Option Reserve £000	Transla-tion Reserve £000	Retained Losses £000	Total Equity £000
Balance at 31 December 2016	**1,579**	**52,832**	**(809)**	**627**	**(176)**	**(42,351)**	**11,702**
Loss for the year	-	-	-	-	-	(9,741)	**(9,741)**
Other comprehensive income for the year	-	-	-	-	46	-	**46**
Total comprehensive income for the year	-	-	-	-	46	(9,741)	**(9,695)**
Issue of share capital	980	12,733		-	-	-	**13,713**
Employee Benefit Trust	-	-	(2,444)	-	-	-	**(2,444)**
Credit to equity for share options	-	-	-	422	-	-	**422**
Credit to equity for share pay-ments	-	-	-	267	-	-	**267**
Balance at 31 December 2017	**2,559**	**65,565**	**(3,253)**	**1,316**	**(130)**	**(52,092)**	**13,965**
Loss for the year	-	-	-	-	-	(5,382)	**(5,382)**
Other comprehensive income for the year	-	-	-	-	54	-	**54**
Total comprehensive income for the year	-	-	-	-	54	(5,382)	**(5,328)**
Issue of share capital	1,089	3,950	-	-	-	-	**5,039**
Credit to equity for share options	-	-	-	445	-	-	**445**
Balance at 31 December 2018	**3,648**	**69,515**	**(3,253)**	**1,761**	**(76)**	**(57,474)**	**14,121**

Company balance sheet

At 31 December 2018

	Note	2018 £000	2017 £000
Non-current assets			
Intangible assets	15	**-**	-
Investments in subsidiaries	18	**7,898**	7,436
Total non-current assets		**7,898**	7,436
Current assets			
Trade and other receivables	21	**3,726**	4,829
Cash and cash equivalents	22	**4,210**	4,611
Total current assets		**7,936**	9,440
Total assets		**15,834**	16,876
Current liabilities			
Trade and other payables	23	**(196)**	(131)
Total liabilities		**(196)**	(131)
Net current assets		**7,740**	9,309
Net assets		**15,638**	16,745
Equity			
Share capital	25	**3,648**	2,559
Share premium account		**69,515**	65,565
Share option reserve	27	**1,761**	1,316
Retained losses	29	**(59,286)**	(52,695)
Total equity		**15,638**	16,745

The Company reported a loss for the financial year ended 31 December 2018 of £6.6m (2017: £10.7m).

The financial statements of CyanConnode Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 15 May 2019. They were signed on its behalf by

John Cronin
Director

Company statement of changes in equity

At 31 December 2018

	Share Capital £000	Share Premium £000	Share Option Reserve £000	Retained Losses £000	Total Equity £000
Balance at 31 December 2016	**1,579**	**52,832**	**627**	**(41,980)**	**13,058**
Loss for the year	-	-	-	(10,715)	**(10,715)**
Total comprehensive income for the year	-	-	-	(10,715)	**(10,715)**
Issue of share capital	980	12,733	-	-	**13,713**
Credit to equity for share options	-	-	422	-	**422**
Credit to equity for share payments	-	-	267	-	**267**
Balance at 31 December 2017	**2,559**	**65,565**	**1,316**	**(52,695)**	**16,745**
Loss for the year	-	-	-	(6,591)	**(6,591)**
Total comprehensive income for the year	-	-	-	(6,591)	**(6,591)**
Issue of share capital	1,089	3,950	-	-	**5,039**
Credit to equity for share options	-	-	445	-	**445**
Balance at 31 December 2018	**3,648**	**69,515**	**1,761**	**(59,286)**	**15,638**

Consolidated cash flow statement

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Net cash outflow from operating activities	**30**	**(5,843)**	(9,697)
Investing activities			
Interest received		**13**	15
Purchases of property, plant and equipment		**(41)**	(73)
Disposal/(purchase) of investments		**4**	(6)
Net cash used in investing activities		**(24)**	(64)
Financing activities			
Interest paid		**(2)**	(7)
Proceeds on issue of shares		**5,467**	11,804
Share issue costs		**(428)**	(535)
Net cash from financing activities		**5,037**	11,262
Net (decrease)/increase in cash and cash equivalents		**(830)**	1,501
Cash and cash equivalents at beginning of year		**5,394**	3,893
Cash and cash equivalents at end of year		**4,564**	5,394

Company cash flow statement

For the year ended 31 December 2018

	2018 £000	2017 £000
Loss for the year	**(6,591)**	(10,715)
Impairment charges	6,466	10,691
Share based payment expenses	-	267
Operating cash flows before movement in working capital	**(125)**	243
(Increase) in receivables	**(4,979)**	(9,647)
Increase in payables	**65**	117
Net cash outflow from operating activities	**(5,039)**	(9,287)
Investing activities		
Purchase of investment	**(401)**	(1,184)
Net cash outflow from investing activities	**(401)**	(1,184)
Financing activities		
Proceeds on issue of shares	**5,467**	11,804
Share issue costs	**(428)**	(535)
Net cash from financing activities	**5,039**	11,269
Net (decrease)/increase in cash and cash equivalents	**(401)**	798
Cash and cash equivalents at beginning of year	**4,611**	3,813
Cash and cash equivalents at end of year	**4,210**	4,611

Notes to the Financial Statements

1. General information

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

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised Standards

In the current financial year, the Company has adopted the following new and revised Standards and Interpretations. Their adoption has not had a significant impact on the comparative amounts reported in these Financial Statements:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers (and the related clarifications)
- Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions
- Annual improvements to IFRSs: 2014 –16 cycle
- Amendments to IAS 7: Disclosure initiative
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses
- IFRIC 22: Foreign currency transactions and advance consideration
- Amendments to IAS 28: Investments in associates and joint ventures

The Company adopted IFRS 15: "Revenue from Contracts with Customers" on 1 January 2018 using the full retrospective approach. Due to the immaterial impact of IFRS 15 on the Group for the year ended 31 December 2017, no further disclosure is provided on the comparative results or balance sheet position.

IFRS 15 introduced a 5-step approach to revenue recognition and requires the Company to identify deliverables in contracts with customers that qualify as separate "performance obligations". The performance obligations identified will depend on the nature of individual customer contracts. They might typically be identified for the sale of hardware, software and associated accessories, bespoke development/professional services, support and maintenance, licence fees, or the provision of services.

The transaction price receivable from customers must be allocated between the Company's performance obligations under the contracts on a relative stand-alone selling price basis. Revenue is then recognised either at a point in time or over time when the respective performance obligations in a contract are delivered to the customer. The table below shows the main revenue recognition differences for each type of good or service provided under IAS 18 and IFRS 15:

Performance obligation	IAS 18	IFRS 15
Hardware and software	On delivery of the goods	No change
License revenues (perpetual and term)	On transfer of the economic benefit	When control of the software has passed to the customer (i.e. when the license has been granted) – a change in terminology only with no change in amounts recognised for the Group.
Support and maintenance and other services	On transfer of the economic benefit of the license to the customer	No change
Bespoke development services	Percentage of completion method by reference to work performed	At a point in time when control of the bespoke development has passed to the customer
Professional services billed on a time and materials basis (including training)	As work performed	No change

Notes to the Financial Statements

2. Adoption of new and revised Standards (continued)

Adoption of IFRS 15 has not had a material impact on the financial statements of the Company. Please see Note 5 for the additional disclosures which have been provided in the current year to satisfy the requirements of IFRS 15.

IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The Company has taken advantage of the transition provisions of IFRS 9 which allow it not to restate comparatives.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

(i) the classification and measurement of financial assets and liabilities;

(ii) impairment of financial assets; and

(iii) general hedge accounting.

The Company has elected not to restate the comparatives but instead record any adjustments identified in retained earnings in line with the transition arrangement within the standard. Following management's review, a £26,000 reduction in net assets was identified due to the recognition of expected credit losses. The Company has reviewed the classification of its financial instruments and has concluded that financial assets previously classified within the "loans and receivables" category are classified in the "amortised cost" category. The introduction of IFRS 9 has resulted in changes to the accounting policies in trade and other receivables and contract assets.

Standards in issue but not yet effective

At the date of the authorization of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, have not yet been adopted by the European Union:

IFRS 16	Leases
IFRS 17	Insurance Contracts
Amendments to IFRS 9	Prepayment Features With Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRS	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint
Standards 2015-2017 Cycle	Arrangements, IAS 12 income Taxes and IAS 23 Borrowing Costs
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

IFRS 16 (effective date 1 January 2019) will bring all operating leases onto the balance sheet in line with the accounting treatment for finance leases. This will have the impact of increasing both assets and liabilities. The income statement impact is not expected to be material as there are only a small number of leases.

Notes to the Financial Statements

3. Significant accounting policies

Group

Basis of accounting

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

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

Alternative Performance Measures

The Group presents Alternative Performance Measures ("APMs") in addition to the statutory results of the Group. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA").

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 2020 ("the Forecast Period") which, 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 together with the associated timing of cash receipts from customers.

The Group's principal markets are in emerging countries and these have an inherent level of uncertainty associated with them. As a result, future sales could be lower than predicted and/or the timing of orders or cash receipts from customers could be delayed. The directors have taken reasonable steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of cash inflows from customers during the Forecast Period in the Group's target markets is fundamentally uncertain. If material cashflows are delayed the Group may need to seek additional working capital funding.

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

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

Basis of consolidation

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

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

Notes to the Financial Statements

3. Significant accounting policies (continued)

Basis of consolidation

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

Goodwill

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

Intangible assets: customer contracts

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

Research and development expenditure

An internally-generated, or separately acquired, intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all 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 such 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 on the above basis, development expenditure is recognised in profit or loss in the period in which it is incurred.

To date all expenditure on research activities has been recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Revenue recognition

The Group supplies customers with hardware, software and services.

Revenue is recognised according to the five-step approach under IFRS 15 Revenue from Contracts with Customers:

STEP 1. The contract with the customer is identified
STEP 2. The performance obligations within the contract are identified
STEP 3. The transaction price is determined
STEP 4. The transaction price is allocated to the contractual performance obligations
STEP 5. Revenue is recognised in line with us satisfying the performance obligations

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

Sale of hardware

Most hardware revenue relates to the sale of RF modules and gateways. RF modules are fitted into electricity and other meters to make them “smart”. Gateways collect information from the smart meters and send it back to the utility company. CyanConnode is not responsible for fitting the RF modules into its customers’ meters. Installation of the Gateways can be performed by CyanConnode or by a third party. Gateway installation is recognised as a separate contractual element – see “Sale of services” below for more information. Revenue for hardware is recognised when it is delivered to the customer.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Sale of software

CyanConnode has its own standards-based software which it licenses to its customers on either a term or a perpetual basis. These licenses are referred to as Head End Software (HES) licenses. The full value of the license is recognised as revenue when it is granted because at this point the customer is given full "right to use". Sometimes, the price of the HES license is not separately disclosed in the contract with the end customer but is included with related services. In these cases, the value related to the HES license is estimated based on the internal pricings CyanConnode used when it bid for contract. Installation of the HES software onto the end customer's servers is recognised as a separate contractual element - see "Sale of services" below for more information.

Sale of services

The Group offers a range of services including but not limited to:

- Installation of HES software on end customer servers;
- Installation of gateways;
- Custom integration of HES software with end customer's own system;
- Network planning and optimisation;
- Project management;
- End user training; and
- Annual Maintenance Contract for the Omnimesh system (including the RF modules, gateways and HES software)

How revenue is recognised for these services depends on the way in which they are delivered.

If the customer enjoys the value of the service at a point in time, then revenue is recognised at the point of completion. This is the case for: installation of HES software on end customer servers; installation of gateways; custom integration of HES software with end customer's own system; network planning and optimisation; and end user training.

If the customer enjoys the value of the service across a period of time, then revenue is spread over the period of delivery. This is the case for: project management (for which revenue is recognised based on stage of completion); and an annual maintenance contract for the Omnimesh system (for which revenue is recognised in equal increments over time).

Royalties

CyanConnode receives royalties for the manufacture of hardware according to its proprietary design. Royalty revenue is recognised based on the agreed charge per unit multiplied by the number of units manufactured. No revenue for royalties has been recognised in the current or prior year.

Contract liabilities

Where revenue is deferred for the sale of goods which have already been invoiced, the associated cost of goods sold is also deferred and subsequently recognised in the income statement at the same point in time as the revenue to which it relates.

Fair value of consideration

If costs are higher than anticipated to the extent that a contract becomes loss-making as a whole, then a provision for this loss is charged to the income statement as soon as the loss is reasonably certain. No such loss has been recognised in the current or prior year.

Provision for bad debts

Should collectability of an amount already included in revenue become uncertain, then the estimated amount which is no longer expected to be recovered is recognised as an expense and not as an adjustment of the amount of revenue originally recognised.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Leasing

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

Foreign currencies

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

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

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

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

Foreign currencies (continued)

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. These were the only payments made by the Group in the year under review. At year end there were employer's pension contributions provided for but not paid of £120,587 (2017: £165,496).

Notes to the Financial Statements

3. Significant accounting policies (continued)

Taxation

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

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

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

Fixtures and equipment	20% - 50%

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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

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 – assets

Classification and measurement

All financial assets are classified as either those which are measured at fair value, through profit or loss or Other Comprehensive Income, and those measured at amortised cost.

Financial assets are initially recognised at fair value. For those which are not subsequently measured at fair value through profit or loss, this includes directly attributable transaction costs. Trade and other receivables, contract assets and amounts due from equity accounted investments are subsequently measured at amortised cost.

Recognition and derecognition of financial assets

Financial assets are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Impairment of financial assets

For trade and other receivables, contract assets and amounts due from equity accounted investments, the simplified approach permitted under IFRS 9 is applied. The simplified approach requires that at the point of initial recognition the expected credit loss across the life of the receivable must be recognised. As these balances do not contain a significant financing element, the simplified approach relating to expected lifetime losses is applicable under IFRS 9. Cash and cash equivalents are also subject to impairment requirements.

Trade and other receivables

Trade receivables and other receivables are measured and carried at amortised cost using the effective interest method, less any impairment. The carrying amount of other receivables is reduced by the impairment loss directly and a charge is recorded in the Income Statement. For trade receivables, the carrying amount is reduced by the expected lifetime losses. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognised in the Income Statement.

Trade receivables that are assessed not to be impaired individually are also assessed for impairment on a collective basis. Each period end, on a country by country basis we consider the amount of trade debtor provisions booked in the previous twelve months and book a general provision for doubtful debts according to the expected lifetime credit losses (based on an expected life of 12 months). The increase/decrease in this "general doubtful debts" provision is then recognised through the income statement.

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.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Financial instruments – liabilities

Financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instruments and are initially measured at fair value, net of transaction costs. Non-derivative 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 periods. The effective interest rate is the rate that discounts estimated future cash payments throughout the expected life of the financial liability or, where appropriate, a shorter period to the net carrying amount on initial recognition. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

The Company does not have any derivative financial instruments (including no embedded derivatives within its customer contracts). The Company manages its foreign exchange risk through natural hedging by proactively planning to match the currency that revenues are receivable in with the currency of the costs associated with those revenues over the long term.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Warrants

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

Share-based payments

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

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

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

Where they relate to the employees of subsidiary companies, share-based payments are treated as investments in the accounts of the parent company and as capital contribution reserves for the subsidiary companies. The movements during the year in this account are set out in Note 32.

Notes to the Financial Statements

3. Significant accounting policies (continued)

Forecasts and discount rates

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Whilst there is no indication of impairment, the model used by management in performing this assessment contains estimates in regards to the inputs into the discount rates and the inherent assumptions in forecasting which includes estimates of the growth in future sales, projected production costs and operating expenditure. Discount rates are based on management's assessment of risk inherent in the current business model. Reasonably possible changes in assumptions which could cause an impairment are disclosed in note 16.

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 loss 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

This section sets out the key areas of judgement and estimation that have the most significant effect on the amounts recognised in the consolidated Financial Statements.

a. **Critical judgements in applying the Group's and the Company's accounting policies**

Management has made the following key judgements around revenue recognition in applying the Group's accounting policies that have a significant effect on the consolidated Group Financial Statements.

i. *Separable performance obligations*

Judgements have been made around whether performance obligations are separable. For example, revenue relating to gateway hardware is recognised at the point that hardware is received by the customer. It may later be installed by the Company or by a third party. In the former case, the revenue for installation services is recognised as a separate performance obligation when the gateways are installed.

ii. *All inclusive pricing*

Some customer contracts involve multiple performance obligations being bundled into one all-inclusive price. To allocate consideration between performance obligations, the Group must consider whether these performance obligations are separable as well as the standalone value of each performance obligation. The standalone values are calculated with reference to pricing on other comparable contracts and the internal pricing used when the contract was bid for.

iii. *Variable consideration*

Revenue for all goods and services includes an assessment of future collectability. Where credit terms are aligned with those agreed with the end customer (often a utility company), this involves an assessment of variable consideration.

Notes to the Financial Statements

b. **Key sources of estimation uncertainty**

Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions. Although these estimates and associated assumptions are based on management's best knowledge of current events and circumstances, actual results may differ.

i. SMIP Intangible

We have modelled expected net cash flows from Connode AB's UK SMIP contract over the lifetime of the contract and compared the net present value of these cashflows to the £5m carrying value of the related intangible asset at the end of 2018. Sensitivities were run based on (i) a weighted average cost of capital of 15%; (ii) roll-out ceasing at the end of 2020; and (iii) a range of 10% to 15% of UK households being in "not spots".

If roll-out ceased at the end of 2020 and only 1.0 million communication hubs were installed in "not spots", this asset would be impaired by £0.9m. However, this is not considered a likely outcome as all indications are that the UK government will extend the SMIP programme beyond its 2020 deadline. Furthermore, if such a situation were to occur, roll-out might be accelerated. If a minimum 1.2 million communication hubs were installed in "not spots" by the end of the project, the asset would not be impaired.

If the weighted average cost of capital is increased to 18% and roll-out ended in 2020, then a minimum 1.3 million communication hubs would have to be installed in "not spots" for the asset not to be impaired.

A useful economic life of 15 years has been assumed in line with the term of the associated support and maintenance contract.

ii. Goodwill Intangible

The recoverable amount of the cash generating unit ("CGU") is derived from estimates of future cash flows and hence the goodwill impairment test is also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data. Further details on the goodwill balances and the assumptions used in determining the recoverable amounts are provided in note 16. Sensitivity to the assumptions is also found in this note.

iii. Inventory Provision

Inventories include stocks of raw materials and finished goods that the directors believe will be sold within the period to December 2023 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, or which will no longer be supported by the Group have been provided against in full. £578,000 (2017: £55,000) was provided against inventory in the year.

iv. Debtor recoverability

The Group tracks its debtor ageing and cash collection on a contract-by-contract basis each month. A provision has been made for expected lifetime credit losses (see Note 21) based on the amount of bad debts in the last twelve months as a percentage of the total year end debtor balance in each country.

Increasing the provision for expected lifetime credit losses by 1% would increase the Company's operating loss by £34,000.

An amount of £644,000 (2017: £617,000) which is over 90 days old is included in trade debtors and has not been provided for because management believes that this amount will be received in full.

Notes to the Financial Statements

5. Revenue

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

	2018 £000
Continuing operations	
Hardware revenue - recognised at a point in time	**2,601**
Software licenses - recognised at a point in time	**1,191**
Revenue from non-recurring services - recognised at a point in time	**489**
Revenue from other services - recognised over time	**184**
Total revenue	**4,465**

As permitted under the transitional provisions in IFRS 15, the comparable amount for the year ended 31 December 2017 is not disclosed. As a practical expedient, performance obligations within a contract that had an original expectation of less than one year in duration have been excluded.

There was no revenue recognised in the current reporting period that related to performance obligations satisfied by the Company in the prior year.

£75,000 of revenue recognised in 2018 came from brought forward contract liabilities from 31 December 2017.

6. Business and geographical segments

The Group has concluded that as in 2017, it operates only one business segment as defined by IFRS 8. The information used by the Group's chief operating decision maker to make decisions about the allocation of resources and assessing performance is presented on a consolidated Group basis. Accordingly, no segmental analysis is presented. For the future, the split of the business may be revised dependent upon geographical contract wins, centres of operations and the strategic direction taken as the Group's business develops further.

During 2018 there were 3 customers (2017: 3) whose turnover accounted for more than 10% of the Group's total revenue as follows:-

	2018		2017	
	Turnover £000	Percentage of Total %	Turnover £000	Percentage of Total %
Customer A	1,468	33	365	31
Customer B	1,891	42	256	22
Customer C	454	10	131	11

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

	2018		2017	
	Turnover £000	**Percentage of Total %**	Turnover £000	Percentage of Total %
Europe	**1,067**	**23.9**	640	54.6
India	**3,398**	**76.1**	508	43.5
Rest of World	**-**	**0.0**	23	1.9
	4,465		1,171	

Notes to the Financial Statements

7. Loss for the year

Loss for the year has been arrived at after charging:

	2018 £000	2017 £000
Net foreign exchange losses	**16**	52
Research and development costs (excluding staff costs)	**1,041**	1,765
Depreciation of property, plant and equipment	**51**	68
Amortisation of intangibles	**421**	421
Bad debts written off	**78**	27
Provision for expected credit losses	**64**	-
Impairment of stock	**578**	55
Cost of inventory recognised as an expense	**1,385**	616
Staff costs (see note 9)	**4,227**	5,313
Operating lease costs (see note 31)	**141**	174

8. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2018 £000	2017 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**130**	34
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	**46**	24
Total audit fees	**176**	58

Notes to the Financial Statements

9. Employee information

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

	2018 £000	2017 Number
Sales and administration	**19**	23
Research and development	**23**	22
Operations and logistics	**10**	9
	52	54

There are no employees in the parent company.

	2018 £000	2017 £
Their aggregate remuneration comprised:		
Wages and salaries	**3,363**	3,861
Social security costs	**314**	500
Other pension costs	**105**	263
Remuneration paid in shares	**-**	267
Share option charges	**445**	422
	4,227	5,313

Key management compensation

The directors are of the opinion that key management personnel during 2018 comprised the Board of Directors. These persons had the authority and responsibility for planning, directing and controlling the activities of the Group. Remuneration of these personnel is detailed below.

	2018 £000	2017 £000
Their aggregate remuneration comprised:		
Wages, salaries and fees	**565**	986
Social security costs	**35**	37
Other pension costs	**6**	3
	606	1,026

Specific details of directors' remuneration and other information (including share based compensation) are included in the Remuneration Committee Report within this Annual Report. Neither John Cronin nor Harry Berry are members of the Company pension scheme.

The highest paid Director received total remuneration of £235,000 (2017: £495,000). Please see page 37 for the details.

10. Investment income

	2018 £000	2017 £000
Interest revenue:		
Bank deposits	**13**	16

Investment revenue is all earned on cash and cash equivalents.

Notes to the Financial Statements

11. Finance costs

	2018 £000	2017 £000
Interest on bank overdrafts	**2**	6

Connode AB has a SEK 2 million overdraft facility (secured against the assets of Connode AB). This was £nil at 31 December 2018 (2017: £nil)

12. Tax

	2018 £000	2017 £000
Current tax:		
UK corporation tax on profits of the period	**(822)**	(1,383)
Adjustments in respect of prior periods	**63**	65
Deferred tax (note 24)	**(168)**	(84)
Total tax credit	**(927)**	(1,402)

	2018 £000	2017 £000
Loss on ordinary activities before tax	**(6,309)**	(11,143)
Tax on loss at standard corporation tax rate of 19.00% (2017: 19.25%)	**(1,199)**	(2,145)
Effects of:		
Expenses not deductible for tax purposes	**52**	56
Capital allowances in excess of depreciation	**(1)**	(2)
Other short term timing differences	**(67)**	(38)
Losses surrendered for R&D tax credit	**1,080**	1,836
Additional R&D deduction	**(610)**	(1,038)
R&D Tax credit receivable	**(822)**	(1,383)
Unrelieved tax losses c/f	**600**	1,246
Difference in tax rates	**(23)**	1
Adjustment in respect of prior period	**63**	65
Total tax charge/(credit) for the period	**(927)**	(1,402)

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. The Swedish tax rate of 22% and Indian effective tax rate of 34.608% remain unchanged and the deferred tax in these countries has been recognised at the relevant rate.

Notes to the Financial Statements

13. Loss per share

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

	2018	2017
Loss for the purposes of basic loss per share being net loss attributable to equity holders of the parent (£000)	**(5,382)**	(9,741)
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**126,443,036**	95,740,200
Loss per share (pence)	**(4.26)**	(10.18)

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

14. Intangible Assets (Group)

	Software £000	SMIP Intangible £000	Total £000
Cost			
Balance at 31 December 2016, 2017 and 2018	**144**	**6,100**	**6,244**
Amortisation			
Balance at 1 January 2017	144	210	354
Charge for year	-	421	421
Balance at 31 December 2017	144	631	775
Charge for year	-	421	421
Balance at 31 December 2018	**144**	**1,052**	**1,196**
Carrying amount			
At 31 December 2018	**-**	**5,048**	**5,048**
At 31 December 2017	-	5,469	5,469

Smart Metering Implementation Programme ('SMIP') relates to a contract acquired with the Connode Group in 2016 to partner Telefonica and Toshiba in their SMETS2 rollout in the UK. CyanConnode's technology enables their communication hubs to work in areas of the UK that have no, or intermittent, mobile network coverage.

Software is amortised over 5 years. SMIP intangible is amortised over 15 years.

Notes to the Financial Statements

15. Intangible assets (Company)

	Software £000
Cost at 31 December 2017 and 31 December 2018	144
Amortisation at 31 December 2017 and 31 December 2018	144
Carrying amount at 31 December 2018 and 31 December 2017	-

16. Goodwill

	Group £000
Cost at 1 January and 31 December 2018	1,930
Carrying amount at 31 December 2017 and 31 December 2018	**1,930**

Impairment testing
The Company tests goodwill annually or more frequently if there are indications that goodwill might be impaired. In accordance with IAS 36: "Impairment of assets" the Company values goodwill at the recoverable amount, being the higher of the value in use basis and the fair value less costs to sell basis. Note that goodwill has been allocated to a single cash generating unit for the purposes of this testing.

Value in use calculations have been used to determine the recoverable amount of goodwill. The calculations use the latest approved forecast extrapolated to perpetuity using growth rates shown below, which do not exceed the long-term growth rate for the relevant market. Based on impairment testing completed at the year end, no impairment was identified in respect of goodwill.

Significant assumptions and estimates
The following significant assumptions have been used:

- Weighted average cost of capital 15%
- Compound annual growth rate in revenue over next five years 18%
- Growth rate in perpetuity 5%

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

The key assumption in the impairment review is that compound annual revenue growth will be 18% over the next five years with revenues beyond that period based upon a terminal growth rate of 5%. The 5% growth rate has been used to reflect the long term growth rate for the Group's target markets including India (where forecast growth rates in perpetuity are around 8% to 10% per annum).

A reduction in revenue compound annual growth rates over the next five years from 18% to 14%, an increase in discount rate from 15% to 17.94%, or a reduction in terminal growth rate from 5% to 0.34% would reduce the £5.0m headroom in the base case impairment model to zero. A failure to achieve the expected revenue growth could therefore make an impairment to goodwill reasonably possible.

Notes to the Financial Statements

17. Property, plant and equipment

No assets are held at valuation in these accounts.

Group

	Fixtures and equipment £000
Cost	
At 1 January 2017	336
Additions	73
Disposals	(118)
At 31 December 2017	291
Additions	41
At 31 December 2018	332
Accumulated Depreciation	
At 1 January 2017	258
Charge for the year	68
Disposals	(118)
At 31 December 2017	208
Charge for the year	51
At 31 December 2018	259
Carrying Amount	
At 31 December 2018	73
At 31`December 2017	83

At 31 December 2018 the Group had no contractual commitments outstanding for the acquisition of property, plant and equipment (31 December 2017: £nil).

18. Subsidiaries

Investment in subsidiaries

	Company 2018 £000	Company 2017 £000
As at 1 January	**7,436**	8,330
Capital contribution in respect of share based payment	**445**	422
Investment in CyanConnode Pvt Ltd	**401**	1,184
Impairment	**(384)**	(2,500)
As at 31 December	**7,898**	7,436

In 2018, CyanConnode Holdings plc invested £401,000 (2017: £1,184,000) in CyanConnode Pvt Ltd (in India) to fund working capital. In 2018, an impairment charge of £384,000 (2017: £2,500,000) was banked against the carrying value of the parent company's investment in its subsidiaries. All of this (2017: £1,187,000) related to share options issued to employees of CyanConnode Ltd.

Notes to the Financial Statements

18. Subsidiaries (continued)

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 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 ending 31 December • The principal activity of the Company is research and development, and to market and sell the Group's range of products • The Company's results are consolidated into these accounts
CyanConnode 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 market and sell the Group's range of products in India. • The Company's results for the period ending 31 December 2018 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 activity of the Company is to act as a parent company • The Company's results are consolidated into these accounts
Connode AB Järnvägsgatan 10 172 35 Sundbyberg Stockholm Sweden	• 100% of the issued capital of the Company is held by Connode Holding AB • The Company is incorporated in Sweden and has an accounting period ending 31 December • The principal activity of the Company is to market and sell the Group's range of products in the Nordic region • The Company's results 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 market and sell the Group's range of products in India • The Company's results for the 12 months ending 31 December 2018 are consolidated into these accounts

Notes to the Financial Statements

19. Fixed Asset Investments

	Group	
	2018	2017
	£000	£000
Bank securities	**44**	48

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

20. Inventories

	Group	
	2018	2017
	£000	£000
Raw materials - cost	**219**	318
Raw materials - provision	**(104)**	(88)
Raw materials - net realisable value	**115**	230
Finished goods - cost	**801**	933
Finished goods - provision	**(597)**	(35)
Finished goods - net realisable value	**204**	898
Inventories	**319**	1,128

£578,000 (2017: £55,000) of stock impairment charges were recognised in the year.

The Company held no inventories at either balance sheet date.

21. Trade and other receivables

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Trade receivables: amount receivable for the sale of goods and services	**3,408**	1,291	**-**	-
Allowance for expected credit losses	**(64)**	-	**-**	-
R&D tax credit receivable	**822**	1,391	**-**	-
Contract asset	**246**	40	**-**	-
Other debtors	**176**	139	**138**	10
Employee Benefit Trust Loan	**-**	-	**890**	2,083
Prepayments	**239**	158	**95**	19
Loans to other group entities	**-**	-	**2,603**	2,717
Trade and other receivables	**4,827**	3,019	**3,726**	4,829

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

Trade receivables are non-interest bearing. Credit terms offered to customers vary upon the country of operation and type of goods and services provided. Credit terms are often aligned with the credit terms agreed between the meter manufacturer and the end customer. Hardware sales are normally invoiced on delivery and settled within 30 or 60 days. Software licenses and other services tend to have longer payment terms but these vary contract by contract.

Notes to the Financial Statements

21. Trade and other receivables (continued)

Loans to other group entities relates to amounts owed to CyanConnode Holdings plc by Connode Holding AB. This is considered recoverable because it will be largely paid off in the first half of 2019. This inter Company loan is unsecured and will be settled in cash. No guarantees have been given or received. The parent company also has amounts receivable of £53 million from CyanConnode Limited. These amounts have been fully provided for as not recoverable. For more information on loans to other group entities please see note 35.

Expected credit losses

During the year £78,000 (2017: £27,000) was written off the value of the carrying amount of trade and other receivables. A further £64,000 allowance was made for expected credit losses:

	Group £000
As at 1 January 2018	-
Adoption of IFRS9	(26)
Current year charge	(38)
As at 31 December 2018	(64)

Credit risk

At 31 December 2018 the Group had significant concentration of credit risk in two customers which represented 78% (2017: one customer 82%) of the Group's trade receivables. These two customers have paid £1 million in the first four months of 2019. This reliance on two customers in the Indian smart electricity metering sector is included within our principal risks statement on page 17.

Trade receivables	**2018 £000**	2017 £000
Not yet due	**2,121**	565
30-59 days	**204**	103
60-89 days	**439**	6
Over 90 days	**644**	617
Total	**3,408**	1,291

Credit control procedures are implemented to ensure that sales are only made to organisations that are willing and able to pay for them. Such procedures include the establishment and review of customer credit limits and terms. The Company does not hold any collateral or any other credit enhancements over any of its trade receivables nor does it have legal right of offset against any amounts owed by the Company to the counterparty.

22. Cash and cash equivalents

	Group		**Company**	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Cash and cash equivalents	**4,564**	5,394	**4,210**	4,611

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 to their fair value.

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

Notes to the Financial Statements

23. Trade and other payables

Both the Group and the Company have two categories of financial liability being trade payables held at amortised cost. Those of the Group totalled £935,000 (2017: £1,047,000) and those of the Company totalled £94,000 (2017: £60,000). The second category is accruals, held at an estimated fair value.

Trade and other payables

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Trade payables	**935**	1,047	**94**	60
Other payables	**292**	46	**5**	5
Accruals	**388**	765	**97**	66
Social security and other taxes	**365**	301	**-**	-
Contract liabilities	**14**	89	**-**	-
	1,994	2,248	**196**	131

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 68 days (2017: 63 days) due to significant purchases of meters for smart metering deployments in December 2018. The average credit period taken in 2018 for trade purchases by the Company was 32 days (2017: 27 days). Neither the Group nor the Company has incurred interest charges for late payment of invoices during the year (2017: £nil). The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes.

The directors consider that the carrying amount of trade payables approximates to their fair value.
The Group's operating lease commitments are shown within note 31.

Trade payables	**2018 £000**	2017 £000
Not yet due	**418**	569
30-59 days	**469**	107
60-89 days	**2**	150
Over 90 days	**46**	221
Total	**935**	1,047

24. Deferred tax

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

	2018 £000	2017 £000
At 1 January	**858**	942
Origination and reversal of timing differences (note 12)	**(168)**	(84)
At 31 December	**690**	858

Intangibles deferred tax	**1,111**	1,202
Deferred tax asset - Swedish losses	**(421)**	(344)
Total recognised deferred tax liability	**690**	858

Notes to the Financial Statements

24. Deferred tax (continued)

Unrecognised provision for deferred tax

	2018 £000	2017 £000
Accelerated capital allowances	**(1)**	(2)
Short-term timing differences	**(1)**	-
Losses	**(6,224)**	(5,785)
Total unrecognised deferred tax (asset)	**(6,226)**	(5,787)

No deferred tax asset has been recognised due to the recent history of losses.

25. Share capital

	2018 £000	2017 £000
Issued and fully paid: 182,398,523 ordinary shares of 2.0 pence each (2017 127,933,196 ordinary shares of 2.0 pence each)	**3,648**	2,559

In November 2018, the Company completed a placing, the result of which was 53,824,474 ordinary shares of 2.0 pence per share being issued at a price of 10.0 pence per share to raise £5,382,000 before expenses of £428,000.

In the year, shares were issued at prevailing market prices as settlement for professional services provided. A further £85,000 was raised this way.

No shares were issued as a result of the exercise of share options (2017: none).

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

26. Own shares held

	Group £000	Company £000
Balance at 31 December 2017 and 31 December 2018 (9,467,256) ordinary shares of 2.0 pence per share)	(3,253)	-

Own shares are those issued to the Employee Benefit Trust.

27. Share option reserve

	Group £000	Company £000
Balance at 1 January 2017	627	627
Credit to equity for share options	422	422
Credit to equity for share payments	267	267
Balance at 31 December 2017	1,316	1,316
Credit to equity for share options	445	445
Balance at 31 December 2018	1,761	1,761

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

Notes to the Financial Statements

28. Translation Reserve

Group	**2018 £000**	2017 £000
Balance at 1 January	**(130)**	(176)
Exchange differences on translation of foreign operations	**54**	46
Balance at 31 December	**(76)**	(130)

29. Retained earnings

	Group £000	**Company £000**
Balance at 1 January 2017	(42,351)	(41,980)
Net loss for the year	(9,741)	(10,715)
Balance at 31 December 2017	(52,092)	(52,695)
Net loss for the year	(5,382)	(6,591)
Balance at 31 December 2018	**(57,474)**	**(59,286)**

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

30. Notes to the consolidated cash flow statement

	2018 £000	2017 £000
Operating loss for the year:	**(6,320)**	(11,153)
Adjustments for:		
Depreciation of property, plant and equipment	**51**	69
Amortisation of Intangible assets	**421**	421
Impairment of stock	**578**	56
Provision for expected credit losses	**64**	-
Foreign exchange	**55**	46
Share payment expense	-	267
Share-option payment expense	**445**	422
Operating cash flows before movements in working capital	**(4,706)**	(9,872)
Decrease/(increase) in inventories	**231**	(844)
(Increase)/decrease in receivables	**(2,441)**	348
(Decrease)/increase in payables	**(253)**	43
Cash reduced by operations	**(7,169)**	(10,325)
Income taxes received	**1,326**	628
Net cash outflow from operating activities	**(5,843)**	(9,697)

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

Notes to the Financial Statements

31. Operating lease arrangements

The Group as a lessee

	2018 £000	2017 £000
Minimum lease payments under operating leases recognised as an expense in the year	**141**	174

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:

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

	2018 £000	2017 £000
Within one year	**18**	82
In the second to fifth years inclusive	**-**	18

£18,000 is equivalent to one quarter's rent for the Company's Cambridge office and laboratory. The Company signed a new lease in 2019 for these premises.

The Company as a lessee

	2018 £000	2017 £000
Minimum lease payments under operating leases recognised as an expense in the year	**82**	82

Notes to the Financial Statements

32. Share-based payments

Equity-settled share option scheme

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

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

	2018		2017	
	Number of share options	**Weighted average exercise price (in £)**	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	**20,318,732**	**0.38**	9,023,848	0.80
Granted during the period	**4,292,744**	**0.19**	11,874,654	0.57
Forfeited during the period	**(3,841,813)**	**0.41**	(579,770)	0.69
Outstanding at the end of the period	**20,769,663**	**0.40**	20,318,732	0.38
Exercisable at the end of the period	**2,222,530**	**0.70**	1,893,923	0.51

The options outstanding at 31 December 2018 had a weighted average exercise price of £0.40 (2017: £0.38) and a weighted average remaining contractual life of 19 months (2017: 90 months).

In 2018, options were granted on 25 and 29 January, 26 March, 6 April, 20 June, 15 and 29 November, 11,12,13 and 19 December. The aggregate of the estimated fair values of those options is £338,506.

In 2017, options were granted on 3, 6 and 10 April, 16 May, 8 June, 23, 25 and 27 October, 17, 22 and 28 November and 11, 12 and 19 December. The aggregate of the estimated fair values of those options is £2,759,372.

A share option charge of £445,000 (2017: £422,000) was recognized during the year. Note 27 gives further detail on the share option charges and reserve.

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

	2018	2017
Weighted average share price	20.68p	32.78p
Weighted average exercise price	32.46p	50.88p
Expected volatility	65%	64%
Expected life	4 years	4 years
Risk free rate	0.5%	0.50%
Expected dividend yield	0%	0%

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

Notes to the Financial Statements

32. Share-based payments (continued)

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:

	2018		2017	
	Number of warrants	**Weighted average exercise price (in £)**	Number of warrants	Weighted average exercise price (in £)
Outstanding at beginning of period	**341,605**	**0.54**	529,076	1.20
Granted during the period	**-**	**-**	7,400	0.39
Expired during the period	**-**	**-**	(194,871)	0.77
Outstanding at the end of the period	**341,605**	**0.54**	341,605	0.54
Exercisable at the end of the period	**341,605**	**0.54**	313,703	0.53

The inputs into the Black Scholes model are as follows:

	2018	2017
Weighted average share price	**32.78p**	32.78p
Weighted average exercise price	**54.0p**	54.0p
Expected volatility	**65%**	64%
Expected life	**4 years**	4 years
Risk free rate	**0.5%**	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

33. Financial instruments and risk management

The table below sets out the Company's accounting classification of each category of financial assets and liabilities and their carrying values at 31 December 2018 and 31 December 2017:

As at 31 December 2018	Group £000	Company £000
Financial assets		
Classified as amortised cost		
Trade receivables	3,408	-
Allowance for expected credit losses	(64)	-
Other receivables	110	110
Contract assets	246	-
Cash and cash equivalents	4,564	4,210
Total financial assets	8,264	4,320
Financial liabilities		
Classified as amortised cost		
Trade payables	935	94
Other payables	292	5
Contract liabilities	14	-
Total financial liabilities	1,241	99

The Directors consider that the financial assets and liabilities have fair values not materially different to carrying values.

Risk management

The Company's financial function provides services to the business, monitors and manages the financial risks relating to the operations of the Group. The main types of risk are outlined below. The Group does not enter into or trade financial instruments, including derivative financial instruments, for any purpose.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables and cash, the credit risk on other classes of financial asset is insignificant. The Company's credit risk on cash and cash equivalents was limited because the majority of its liquid resources are held with mainstream financial institutions which have good credit ratings.

The Company's credit risk was therefore primarily attributable to its trade receivables. Note 21 provides further details regarding the recovery of trade receivables.

The Company has made a provision against the full amount of the debt owed to it by its subsidiary company CyanConnode Limited totalling £51,913,000 (2017: £39,331,000). In addition, the Company has made a total provision of £2,363,000 (2017: £1,170,000) 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.

Capital risk

Details relating to capital risk and capital risk management are set out in the capital structure section in the Directors' Report on page 30.

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. It is also attributable to the company not being able to raise sufficient funding. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.

Notes to the Financial Statements

33. Financial instruments and risk management (continued)

Market risk

We operate primarily in the smart electricity metering sector in India, Scandinavia and the UK. Therefore, we are exposed to changes in market growth rates in this sector as well as macro-economic and political risk in these countries. We are currently expanding operations both in terms of industry sector and geographic reach. This will help to diversify away this market risk. At present, the market we are in continues to grow rapidly in line with industry forecasts.

Currency risk

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

The table below is showing assets and liabilities from the overseas group companies which have been converted to Sterling at the 31 December 2018 exchange rate.

	INR £000	SEK £000
Fixed assets	57	1,932
Current assets	3,738	234
Current liabilities	(1,779)	(87)
Net assets	**2,016**	**2,079**

Foreign currency sensitivity analysis

Currency risks are defined by IFRS 7: "Financial Instruments: Disclosures" as the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.

The following table details the transactional impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the balance sheet date, illustrating the increase/(decrease) in Group operating profit caused by a 10% strengthening of the Indian Rupee and Swedish Krona against Sterling compared to the year-end spot rate. The analysis assumes that all other variables (in particular, other foreign currency exchange rates) remain constant.

Year ended 31 December 2018	2018 £000	2017 £000
Indian Rupee	224	131
Swedish Krona	231	231

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the balance sheet date, illustrating the increase/(decrease) in Group equity cause by a 10% weakening of the Indian Rupee and Swedish Krona against Sterling. The analysis assumes that all other variables (in particular, other foreign currency exchange rates) remain constant.

Year ended 31 December 2018	2018 £000	2017 £000
Indian Rupee	(183)	(107)
Swedish Krona	(189)	(189)

Notes to the Financial Statements

33. Financial instruments and risk management (continued)

Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

In valuing share options issued as compensation, the Black Scholes methodology has been used. The assumptions made are explained in note 32. The share-based compensation is level 2 on the fair value hierarchy.

In valuing expected credit losses we have used internal information. This is therefore categorised as level 3.

34. Post balance sheet events

In February 2019, we announced a follow-on order from Larsen & Toubro (L&T) for the Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Ltd (MPWZ) project, announced in May 2018, worth approximately £0.4 million. All hardware for this order was delivered before the end of March 2019. In April 2019 we announced a purchase order from a new Partner for an Indian state-owned Utility, who is also a new end-customer. This order was for a hybrid RF Smart Mesh and Cellular communications network and will be delivered in full during 2019.

We achieved accreditation for 3 ISO standards (9001:2015, 27001 and 14001) during the first quarter of 2019, all of which are important in our industry as they highlight the quality and security of our products, and the streamlined processes which have been implemented across the organisation. Obtaining accreditation for ISO 14001 highlights our commitment to the environment.

In early 2019, we signed a new lease agreement for our Cambridge office and laboratory.

Notes to the Financial Statements

35. Related Party Transactions

The Board is satisfied that procedures are in place to ensure that all transactions with related parties are on an arm's length basis and subject to market testing.

Investments by parent company

Included in the investment in subsidiaries figure (Note 18) of £7,898,000 is an amount of £2,000 (2017: £2,000) relating to the investment held by CyanConnode Holdings plc in CyanConnode Limited.

In 2018 an investment of £401,000 (2017: £1,184,000) was made by CyanConnode Holdings Plc in CyanConnode Private Limited. The remaining amount is a capital contribution amounting to £61,000 (2017: £1,203,000), which relates to the share compensation charge in respect of share options granted in the Company on behalf of employees in CyanConnode Pvt Limited.

Board members

Please refer to page 27 of the Corporate Governance Statement for a full list of directors who served in the year. During the year, the directors of the Company purchased newly issued shares to the amount of 8,800,000 shares (2017: 313,021 shares) for £880,000 (2017: £108,000).

During the year, the Company paid fees of £244,000 (2017: £543,000) in respect of services provided by directors. Please see page 37 for the Directors' Remuneration Report for further information.

Other key management personnel

Hans-Erik Wikman is a director of Connode AB and Connode Holding AB. He is also CFO, Board Director and shareholder of Tritech. Tritech sold the Connode Group to the Company in late 2016. Tritech have continued to provide bookkeeping and company secretarial support for the Connode group of companies. In 2018, revenue of £42,000 and costs of £103,000 were recognised in relation to Tritech.

Transactions between parent company and subsidiaries

Year end balances outstanding and transactions in the year between the parent company and its subsidiaries and associates are disclosed below.

	Connode Holding AB £000	CyanConnode Limited £000	CyanConnode Pvt Limited £000
Loans to related parties			
Balance as at 31 December 2017	2,311	47,025	405
Cash advances/(repayments)	298	4,521	(401)
Interest on loan balance	37	-	-
Loss on revaluation	(47)	-	-
Management fee	-	367	-
Balance as at 31 December 2018	2,599	51,913	4

The balance due to CyanConnode Holdings plc from Connode Holding AB carries an interest charge of £21,000 (2017: £16,000); 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 2018 these amounted to £375,000 (2017: £335,000).

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