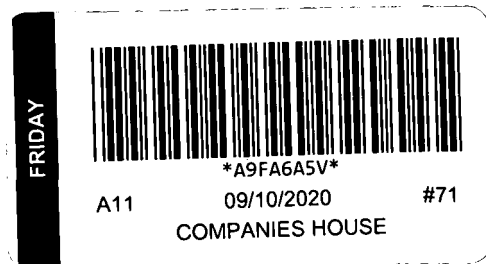


CYANCONNODE HOLDINGS PLC
ANNUAL REPORT AND ACCOUNTS
MARCH 2020



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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

- Orders received during the period totaled £6.8 million, including:-
 - March 2020 - Follow-on order from Forth Corporation Public Company for a Thai Utility bringing the total value of Thai orders to more than £2.3 million
 - January 2020 - £3.3 million order for 142,000 modules from Genus Power Infrastructures Ltd ("Genus") secured by a Letter of Credit ("LOC")
 - December 2019 - £1.1 million order from JST Group for a Thai Utility
 - Follow-on orders from HM Power (April 2019), Larsen & Toubro ("L&T") (February 2019) and Toshiba (July 2019) totaling £1.3 million
- £4.1 million of cash received from customers during the fifteen-month period (2018: £2.6 million)
- Launch of new Omnimesh Cellular products including Dual SIM Cellular Network Interface Card and In-Meter Gateway for improved security and increased capacity
- Chris Jones and Peter Tyler appointed Non-Executive Directors in March 2019
- Change of External Auditor to RSM UK Audit LLP
- Change of financial year end to 31 March

Financial highlights

	15 months to Mar 2020 £m	Year to Dec 2018 £m	% Change
Revenue	2.5	4.5	↓ 45%
Gross margin ¹	1.4	2.7	↓ 50%
Operating costs	(7.6)	(9.1)	↓ 16%
Operating loss	(6.2)	(6.3)	↓ 1%
Depreciation and amortisation	(0.8)	(0.5)	↑ 64%
LBITDA ¹	(5.5)	(5.8)	↓ 7%
Adjusted LBITDA ²	(4.9)	(4.8)	↑ 2%
Cash	1.2	4.6	↓ 74%

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 18 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 18 for details.

Post-Period Highlights

- Resumption of previously delayed INR 1 billion Indian contract. Inspection, dispatch and cash received for first 20,000 units and Letter of Credit secured for remaining deliveries. Cash received for a further 20,000 units and Letter of Credit secured for remaining deliveries
- Commencement of rollout of recently announced projects in India and Thailand following easing of COVID-19 lockdown, with more than 30,000 modules delivered against these projects since period end
- Continued rollout of Sweden projects with 34,000 modules delivered against these projects since period end
- A further 5,000 modules delivered to Larsen and Toubro for legacy projects
- £1.3 million cash received from customers since the period end. Current cash balance at the same level as end of December 2019 (£1.1 million)

Chairman's Statement

Operational Review

India

15 months to 31 March 2020 saw delays to the tendering process and to the roll out of existing contracts as a result of the Indian General Elections. In particular the rollout of a substantial order announced in September 2018 for the Indian Utility, Jaipur Vidyut Vitran Nigam Ltd ("JVNL") was delayed for most of 2019 and into 2020. This delay, relating to two projects worth over INR 1 billion in total, caused a significant shortfall in revenues for 2019. The local government re-approved the project in June 2020, and the rollout is now progressing with cash being received from the customer.

In February 2019, a follow-on order was received from Larsen & Toubro ("L&T"), worth approximately £0.4 million. The follow-on order relates to an order announced in May 2018, worth £2.5 million, with the deployment of smart meters progressing rapidly and already showing the benefits of the Omnimesh solution to the utility. All the Omnimesh RF Modules ordered in the follow-on order were delivered in H1 2019 and revenue recognised during the period. The full contract is being rolled out over a period of up to two years followed by a five-year support and maintenance period. The utility now intends to add a further 350,000 units across 5 RAPDRP towns to this project due to the benefits being provided by Omnimesh. It is expected these units will be RF-Mesh, and the tender is currently underway. Several state-owned utilities and government agencies have visited the project and intend to follow the same model for their respective projects.

In April 2019, an order was received from a new partner, an Indian state-owned Utility, for the deployment of 3,000 Omnimesh Modules, which utilise a hybrid radio frequency ("RF") Smart Mesh and Cellular communication network. All hardware was delivered, and revenue recognised in H1 2019.

In July 2019, a follow-on order from Genus Power Infrastructures Ltd ("Genus") was received for a further 4,050 smart metering units for the deployment at Uttar Gujarat Vij Company Ltd ("UGVCL"). The initial order of 23,000 Omnimesh RF Modules placed in July 2017, was the first order from India for the IPv6-6LoWPAN based technology, which was developed by Connode AB in Sweden, prior to its acquisition by CyanConnode.

Further follow-on orders were received during the financial year, including orders for the projects previously deployed at Chamundeshwari Electricity Supply Corporation ("CESC"), Singareni Collieries and Tata Power Mumbai, who recently placed an order to extend the Annual Maintenance Contract relating to an order received in 2014. These projects continue to perform well. A number of other small orders have been received including from Larsen & Toubro ("L&T") for CyanConnode's legacy product taking the total orders received by L&T for this product to over 50,000 to date, including the orders specifically for Tata Power Mumbai in previous years.

In December 2019, a Letter of Intent ("LOI") for an order worth £3.3 million was received from Genus Power Infrastructures Ltd ("Genus"). The formal purchase order was placed in January 2020 and CyanConnode expects that revenue for 80% of the order will be recognised by mid-2021. Payments will be secured by a Letter of Credit.

Europe

In April 2019, a follow-on order worth £0.7 million was received from HM Power ("HMP"), for the smart metering of district heating and power, which demonstrates the flexibility of CyanConnode's standards-based Omnimesh products. The order also included the new Omnimesh Long-Range RF Module that has a range of up to 12km, which increases the resilience of the RF Smart Network in rural areas. Delivery of the Omnimesh Long-Range RF Modules commenced in Q4 2019 and will continue throughout 2020.

In July 2019, a follow-on Nordic order worth €489,000 was received. The order was for legacy CyanConnode hardware and software from an existing Partner and the end customer is a Nordic Utility, who is expanding an existing smart metering deployment. All revenue relating to this order was recognised in 2019 and all cash has been received.

Chairman's Statement (continued)

Additionally, a follow-on order from Toshiba worth approximately £0.2 million for service enhancements relating to the UK Smart Meter Implementation Program ("SMIP") was received in July 2019 and revenue recognised in H2 2019. CyanConnode's RF technology is embedded in the Toshiba SUK2 and SUK3 SMETS2 Communication Hubs ("RF Hubs"), which are installed when a meter is located in a spot that does not have a reliable cellular signal (known by mobile operators as "hot-spots"). Toshiba Communications Hubs are being deployed under the Telefónica contract with The Smart DCC Ltd ("DCC") for the Central and Southern regions.

During 2019, the UK Government announced that it had extended the deadline for the rollout of SMETS2 meters by four years to 2024. The DCC aims to connect around 53 million smart gas and electricity meters to its secure network using SMETS2 meters and, in March 2020, it announced that 4.2 million (7.75% of the meter population) had been connected. The roll out of SMETS2 meters commenced in Q4 2018 and CyanConnode believes that, for ease of rapid deployment, installers are initially targeting installations of SMETS2 meters in densely populated areas that have a reliable cellular signal. CyanConnode believes that the installation of RF Hubs will gain momentum during later stages of the rollout.

Under its SMIP contract, CyanConnode calculates that 2.3 million Toshiba RF Hubs will eventually connect to the DCC secure network, and it is now beginning to see a small amount of revenue from those connections. However, as CyanConnode's SMIP contract is still at a relatively early stage, it is still not possible for the Company to confirm whether its revenue forecasts from the SMIP contract are accurate.

APAC and Middle East

The smart metering market in the APAC and Middle East continues to mature and presents a significant opportunity for CyanConnode.

In December 2018, CyanConnode announced a licensing agreement with Beijing Jingybeifang Instrument Co., Ltd ("Beijing Instruments"), providing it with the right to use CyanConnode's reference designs to manufacture Omnimesh RF Modules and Gateways. During 2019 the Group has been working closely with Beijing Instruments on tenders that may require smart meters with Omnimesh RF Modules and Gateways that are manufactured under the licence agreement.

In December 2019, an order was received from its Agent and Partner, JST Group (JST), which included 33,000 Omnimesh RF Modules, worth approximately £1.1 million. The end customer is Metropolitan Electricity Authority (MEA), a Thai state enterprise under the Ministry of Interior. This order included an advance payment of c. £0.3 million which was received in early January 2020. Approximately £0.16 million of revenue was recognised during the period with the balance being deferred to the next financial year. The purchase order relates to a smart metering deployment which includes an Omnimesh Head End Server (HES). Under the agreement CyanConnode will supply hardware, HES and an Annual Maintenance Contract (AMC). Deliverables for the integrated system, as well as hardware deliveries, commenced in 2020. The AMC will deliver a recurring revenue stream over an initial five-year period.

In March 2020, a follow-on order from Thailand for 206,735 Omnimesh perpetual software licences was received. The follow-on order was placed by Forth Corporation Public Company Limited (Forth) with JST acting as CyanConnode's Agent. The order increases the total value of orders received for MEA to more than \$3 million. Under the contract, a payment of approximately \$206,000 was paid as soon as the order was placed. The additional Omnimesh software licences will allow MEA to connect up to 240,000 smart meters to the Omnimesh Head End Server (HES), which will serve the Thai Smart Metro Grid project. The order also includes an Annual Maintenance Contract for the maintenance of the HES, providing a further recurring revenue stream over an initial five-year period.

Chairman's Statement (continued)

New Range of Omnimesh Products

During 2019 and into 2020, CyanConnode launched several exciting Omnimesh products. Omnimesh is an open standards platform which is currently being applied to the future-proofing of Advanced Metering Infrastructure (AMI) communications for Utilities. Omnimesh has offered market-leading RF Mesh Networks since its launch in June 2018. These new products include:

Omnimesh Long-Range RF Network Interface Card

The Omnimesh Long-Range RF Network Interface Card (LR-RFNIC) has a range of up to 12km and is designed to provide point-to-point communication in sparsely populated areas, providing resilient, cost-effective, RF Mesh Network coverage beyond the mainly urban rollouts deployed to date. The LR-RFNIC integrates into standard smart meters and enables long-range communication to be deployed alongside standard RF Mesh Networks built using the Omnimesh RF Network Interface Card (RFNIC).

Omnimesh Metering of District Heating

Omnimesh Smart Metering of District Heating has been designed to meter thermal energy consumption. District Heating is an environmentally friendly method of heating homes, schools and commercial premises from a central plant, which pumps heat to individual premises.

Omnimesh Dual SIM Cellular Network Interface Card

The new Omnimesh Dual SIM Cellular Network Interface Card (CNIC) delivers point-to-point Cellular connectivity and automatically selects the best available Cellular network. The CNIC integrates into standard smart meters, and enables Utilities to optimise their AMI programmes by choosing the right mix of RF Mesh and Cellular connectivity for their deployment environments and AMI requirements. A single Omnimesh Head End Server (HES) can simultaneously manage both CNIC and RF Mesh enabled smart meters. This cost-effective approach enables Utilities to collect meter data and control meters seamlessly through the integration of a single Omnimesh HES into a Meter Data Management System (MDMS).

Omnimesh Integrated Gateway with Cellular and RF Mesh Capability

The new Omnimesh Integrated Gateway (IGW) supports both Cellular and RF Mesh connectivity and acts as a gateway to the Omnimesh HES for a local population of smart meters. The IGW integrates into standard smart meters, which offers several advantages including: strengthened tamper-proofing, ease of integration, increased deployment efficiency, reduced total cost of ownership, and improved network coverage and resilience.

The new Omnimesh Cellular products deliver secure end-to-end communication across both public and private carrier networks. To meet a range of market requirements, the products are available in all cellular regions and bands, and support all the 2G, 3G, 4G, and emerging 5G standards, including NB-IoT and Cat-M1 IoT Cellular technologies.

Board Changes

Harry Berry and Paul Ratcliff stepped down from the Board during the period, and two new Non-Executive Directors, Chris Jones and Peter Tyler, were appointed.

Change of Auditor and Year End

The Company announced in December 2019 that it was appointing RSM UK Audit LLP as its External Auditor due to the length of tenure of its previous External Auditor, Deloitte LLP. Deloitte confirmed that there were no matters connected with it ceasing to hold office which need to be brought to the attention of the members or creditors of the Company, for the purposes of section 519 of the Companies Act 2006. As part of continued operational efficiency and cost management, the Group also aligned its financial year end with its Indian subsidiary, CyanConnode Private Limited, to 31 March.

Chairman's Statement (continued)

COVID-19 Update

In our interim results statement issued on 31 March 2020, we set out how the Group had adapted following the global outbreak of COVID-19 in early 2020. The Group has continued to work throughout the lockdowns in the countries in which it is rolling out contracts, and in which it operates, as well as adapting to a remote way of working where necessary. As also announced in March 2020 the wellbeing of our staff is paramount and a full risk assessment has been carried out in the Group's Headquarters to ensure a safe working environment.

Outlook

In early 2020, the Indian Government stated a target of replacing 250 million conventional electricity meters with pre-paid smart meters within three years. Finance Minister Nirmala Sitharaman has allocated Rs 22,000 crore (c. US\$3 billion) for the power and renewable sector in the Union Budget 2020 and has urged state governments to implement smart meters in three years, which would give the consumers the right to choose suppliers and the rate.ⁱ

ⁱ <https://economictimes.indiatimes.com/industry/energy/power/union-budget-rs-22000-crore-to-power-and-renewable-sector-consumers-to-get-choice-of-supplier/articleshow/73833750.cms>

Since the end of the period, the Group has seen good progress on contracts and opportunities in the Indian market despite the COVID-19 lockdown. In June 2020, the Group announced that two projects relating to an order won in September 2018 had received the necessary approvals to resume. In addition, also in June 2020 CyanConnode announced that deployment of the order won in January 2020 had commenced. These two orders together are for approximately 570,000 modules and associated gateways, software and services and worth over £15 million. Deployment of these projects is moving forward in line with project requirements following some project delays as a result of COVID-19. Most customers are now back at work and fully operational.

Key focus will be on the delivery of these projects along with the projects in Thailand and Sweden, which are also progressing as expected, to convert these projects to revenue and cash.

Finally, I would like to thank all employees for their hard work and commitment during this difficult time.



John Cronin
Executive Chairman
3 September 2020

Strategic Report

Statement of scope

This Strategic Report has been prepared to provide additional information for shareholders to assess the Group'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 and managed 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 Group places a high emphasis on engaging with utility executives, national and regional government officials, standards bodies and regulators. These activities help CyanConnode to understand and meet customer and market needs. A prime example of this strategy in action is the Group's Indian business, where CyanConnode supports the 'Make in India' and 'Skill India' initiatives of Prime Minister Modi, by using local partners for the manufacture and deployment of equipment, which in turn leads to the generation of in-country wealth.

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

- Being Thought Leaders in the Internet of Things ("IoT")
- Offering customers solutions that result in optimised hybrid networks solutions that lever existing infrastructure
- Offering full end-to-end solutions including the integration of embedded modules into meters and integration into the customers billing and meter data management systems
- The manufacture and deployment of equipment using local partners to generate in-country wealth
- Building strong relationships with Partners, Utilities, Governments, Standards Bodies and Regulators
- Providing excellent customerservice

The Group 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, development and deployment of full end-to-end 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). These are portions of the radio spectrum reserved internationally for industrial, scientific and medical purposes other than telecommunications. This technology forms part of the UK Smart Metering Implementation

Strategic Report (continued)

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.

Narrowband Radio Frequency (RF) Modules and Gateways

New Range of Omnimesh Products

During 2019 and into 2020, CyanConnode launched several exciting Omnimesh products. Omnimesh is an open standards platform which is currently being applied to the future-proofing of Advanced Metering Infrastructure (AMI) communications for Utilities. Omnimesh has offered market-leading RF Mesh Networks since its launch in June 2018. These new products include:

Omnimesh Dual SIM Cellular Network Interface Card

The new Omnimesh Dual SIM Cellular Network Interface Card (CNIC) delivers point-to-point Cellular connectivity and automatically selects the best available Cellular network. The CNIC integrates into standard smart meters, and enables Utilities to optimise their AMI programmes by choosing the right mix of RF Mesh and Cellular connectivity for their deployment environments and AMI requirements. A single Omnimesh Head End Server (HES) can simultaneously manage both CNIC and RF Mesh enabled smart meters. This cost-effective approach enables Utilities to collect meter data and control meters seamlessly through the integration of a single Omnimesh HES into a Meter Data Management System (MDMS).

Omnimesh Integrated Gateway with Cellular and RF Mesh Capability

The new Omnimesh Integrated Gateway (IGW) supports both Cellular and RF Mesh connectivity and acts as a gateway to the Omnimesh HES for a local population of smart meters. The IGW integrates into standard smart meters, which offers several advantages including: strengthened tamper-proofing, ease of integration, increased deployment efficiency, reduced total cost of ownership, and improved network coverage and resilience.

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The Omnimesh Long-Range RF Network Interface Card (LR-RFNIC) has a range of up to 12km and is designed to provide point-to-point communication in sparsely populated areas, providing resilient, cost-effective, RF Mesh Network coverage beyond the mainly urban rollouts deployed to date. The LR-RFNIC integrates into standard smart meters and enables long-range communication to be deployed alongside standard RF Mesh Networks built using the Omnimesh RF Network Interface Card (RFNIC).

Omnimesh Metering of District Heating

Omnimesh Smart Metering of District Heating has been designed to meter thermal energy consumption. District Heating is an environmentally friendly method of heating homes, schools and commercial premises from a central plant, which pumps heat to individual premises.

The new Omnimesh Cellular products deliver secure end-to-end communication across both public and private carrier networks. To meet a range of market requirements, the products are available in all cellular regions and bands, and support all the 2G, 3G, 4G, and emerging 5G standards, including NB-IoT and Cat-M1 IoT Cellular technologies.

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 the

Strategic Report (continued)

Group also has a Licensing Agreement with Beijing Instruments granting them 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, district heating and water smart meters on the same platform, thereby simplifying utility back office function. Omnimesh 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. All new software and firmware upgrades are provided over the air.

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 to avoid rip-and-replace costs.

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.

Strategic Report (continued)

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Decisions of the CyanConnode Board take into account not just short-term, but also medium and long-term consequences, which are carefully considered and balanced, having regard to the sometimes conflicting needs and priorities of the business, its customers, partners, employees and other stakeholders.

The Strategic report sets out the Group's policy towards employees in greater detail. CyanConnode's value is created through innovation, which is a product of motivated employees. They are of central importance to the Group's success, and the directors believe that the CyanConnode culture and core values create an environment for engaged and successful employees. The HR department supports managers to look after employee needs.

CyanConnode's success depends on strategic relationships with key investors, partners, customers and suppliers, so the Board maintains ongoing oversight of these. Monthly Board Reports update the Board on the status of key relationships, which have Board-level engagement from an operational perspective. Product development and performance is constantly monitored, with the VP of Operations and Engineering regularly attending Board meetings to provide updates and feedback to the Board. Customer feedback is continuously captured through regular account meetings, which are always attended by management-level, and often director-level, representatives.

The Executive Chairman and the Chief Financial Officer engage with both institutional and private investors to provide updates on business and obtain feedback, which is important to the Board. From feedback provided to the Board, it took a decision during the year to seek alternative forms of financing to prevent further dilution to existing shareholders. An advance against its R&D tax credit was obtained in February 2020. This will be repaid out of the R&D tax credit expected to be received by October 2020. Letters of credit, invoice discounting and advance payments have been negotiated on recent contracts to assist with working capital requirements.

CyanConnode seeks to minimise as far as possible its impact on the environment and received ISO14001 accreditation during 2019. It works closely with local businesses to put in place joint environmentally friendly policies. 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.

COVID-19 has meant that most companies around the globe have had to adapt business practices and ways of working. At times the challenges presented by the pandemic have led to conflict of interest between stakeholders as the stage of the pandemic varied according to jurisdiction. For example, if partners in territories with no travel restrictions wanted partners from territories with travel restrictions to travel for face to face project meetings this could not happen. CyanConnode has worked closely with employees, partners, suppliers, and customers to ensure that business has continued in a manner as close to normal as possible during COVID-19 lockdown periods. Shareholder meetings and webinars have been held online to ensure continued engagement with shareholders, and the executive directors have regular calls with shareholders as and when requested.

Further details on practical steps the Group has taken can be found in the Strategic Report, the Directors' Report and Corporate Governance Statement. The Board's adoption and application of the QCA Corporate Governance Code further supports these principles, with more detail of the steps it has taken set out in the QCA website disclosures against the ten principles of the Code, which can be found on the CyanConnode website <https://cyanconnode.com/investors/governance/>

CyanConnode works with the global leaders in its sector. Accordingly, the highest of standards of business are demanded. CyanConnode works with these global leaders, at the forefront of business, industry, and technological innovation, to ensure these standards are constantly challenged and improved.

The competing needs of the various stakeholders of the company are monitored and reviewed at management and at Board level. Where conflicting needs arise, advice is sought from the non-executive directors and, as necessary, from CyanConnode advisors. Through the careful balancing of stakeholder needs, CyanConnode seeks to promote success for the long-term benefit of shareholders.

Strategic Report (continued)

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, products or business opportunities or models there would be a requirement for additional investment. - COVID-19 has resulted in some delays to projects which has resulted in some delays to cash receipts.	- 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 advisor and brokers, to update on cash position. In addition to equity funding, the Directors are regularly 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 or the opex model could be significant sources of funding should they be won. - Dialogues with banks and other financial institutions have been positive and the Directors feel they would be in a position to secure working capital funding should any projects be delayed as a result of COVID-19.
Pandemics	In 2020 the world was impacted by the COVID-19 pandemic which has caused significant disruption across many industries. The Group has not been significantly impacted and has set processes in place to ensure continuation of operations.	- Revised working practices were quickly implemented including remote working and online meetings across the business and with customers, partners and shareholders. - Mitigation against financial and capital risk is discussed in the financial section above on this page.
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 productsuite.
Macro-economic conditions and political risk (for example 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 took place in May 2019 and this resulted in delays of both winning and deploying orders.	• The Group maintains close relationships with its partners and potential end customers 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 are highly complex in terms of regulations to be followed as a UK exporter.	• The design and engineering team have a proven track record of designing products that meet the requirements and regulations of the markets we operate in. • The Group has implemented an Anti-Bribery Policy in line with the Bribery Act 2010, which sets out strict guidelines regarding the offering or receiving of gifts or hospitality to ensure compliance with the Act. Training in Anti-Bribery is provided regularly to employees, contractors and partners. All partners are required to sign acceptance of the CyanConnode Anti-Bribery policy when entering into partnership agreements with the Company. • The Group takes legal advice and advice from the Department of International Trade regarding regulations when entering new territories.

Business Continuity	• CyanConnode depends on a limited number of contract equipment manufacturers ("CEMs") for certain critical aspects of the manufacture of its products • In 2020, CyanConnode relied on two major customers for the majority of its revenue • In 2020 the world has been affected by COVID-19 which has resulted in lockdowns in most countries around the world. This has resulted in delays to deployments and signing of contracts. It has also meant each of the Group's subsidiaries have needed to change their way of working for example working from home	• Strong relationships are maintained with several CEMs in India and China. This helps ensure good quality and de-risks the effect of geopolitical factors in a particular territory. 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. • 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. • CyanConnode has worked closely with employees, partners, suppliers, and customers to ensure that business has continued in a manner as close to normal as possible during COVID-19 lockdown periods.
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 months, we have commissioned external agencies to carry out penetration testing of our network in order to ensure we meet industry best practice. We intend to repeat penetration testing on an annual basis.
Currency Exchange	• We are exposed to both translation and transaction risk. In addition, transactions are carried out in currencies other than UK Sterling. • 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 of 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
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Employee Matters

Headcount

The average number of employees reduced during the fifteen-month period ending 31 March 2020 to 50 (2018: 52). The management, development and delivery of the Company's innovative technologies is made possible through the contribution of highly skilled staff based in the UK, Sweden and India. Staffing requirements continue to be monitored 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 (2018: 29%, or 2 out of 7 employees) and at Board level 20% (2018: 20%). At year end women comprised 21% of total employees across the Group (2018: 16%) or 10 out of a total of 48 employees (2018: 10 out of 61). Despite the engineering industry being a male dominated industry, the number of women engineers has increased during the period. The Group also has and encourages a diverse workforce in terms of nationality.

Employment Policy

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

Environmental Policy

CyanConnode recognises that it has a moral duty of care as well as a legal obligation to the environment and is committed to minimising the impact of its activities on the environment. Taking a responsible approach to the environment is good business practice as well as essential in helping the world to tackle climate change issues. Our technology is also at the heart of new strategies that will deal with other environmental and resource challenges such as the management of smart grids and water resources. During 2019 CyanConnode received ISO14001 accreditation. It also works closely with its landlord and other companies located in the same building to ensure environmental awareness and implement eco-friendly initiatives and policies within the building.

Strategic Report (continued)

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 Group.
- 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.
- Introduce and encourage more online meetings to reduce travel requirements across the globe.

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.

The ultimate responsibility for CyanConnode's environmental policy lies with its Board of Directors. The policy is communicated to all employees within the Group via email. It is the responsibility of each employee to follow the rules and procedures the Group 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 Group.

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 Group. 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.

During the COVID-19 pandemic the Group has been focussed on ensuring the wellbeing of its employees, following government regulations in all jurisdictions in which it operates. It has implemented a social distancing policy allowing employees to work in its office in Cambridge, and provided information and guidance to all employees to ensure their safety and the safety of all its stakeholders.

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 Group 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 and we seek to ensure compliance by having partners and suppliers sign up to our policies of business.

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



John Cronin
Executive Chairman
3 September 2020

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.

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 PowerPlant.

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.

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.

Financial Review

Key Financials

Financial Summary

The fifteen months to March 2020 presented challenges to the Group as a result of restrictions put in place during the 2019 Indian elections, which caused delays both to the rollout of existing contracts and also to the awarding of new contracts. In addition, the final quarter of the period saw the outbreak of the COVID-19 pandemic which has had an impact globally. Despite these difficulties, the Group has adapted its working practices and is managing its cash and costs accordingly, and expects to meet its obligations as and when they fall due.

A summary of the key financial results for the fifteen-month period, and details relating to its financing position at period end are set out in the table below and discussed in this section.

	Mar 2020 £'000	Dec 2018 £'000	Dec 2017 £'000	Dec 2016 £'000
Revenue	2,451	4,465	1,171	1,823
R&D expenditure (including staff costs)	2,381	2,466	4,148	2,913
Operating loss	(6,230)	(6,320)	(11,153)	(7,939)
Depreciation and amortisation	773	472	489	256
LBITDA	(5,457)	(5,848)	(10,664)	(7,683)
Stock impairment	4	578	55	96
Share based compensation	267	445	689	2
Acquisition - related costs	-	-	-	1,564
Foreign exchange losses	267	16	52	48
Adjusted LBITDA ¹	(4,919)	(4,809)	(9,868)	(5,973)
Cash and cash equivalents	1,172	4,564	5,394	3,893
Average monthly operating cash outflow	(245)	(487)	(808)	(588)

	Mar 2020 FTE ²	Dec 2018 FTE	Dec 2017 FTE	Dec 2016 FTE
Average employee headcount	50	52	44	31
Year-end headcount	48	61	52	31

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 Group.

LBITDA (Loss 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 as set out in the table above. It is used to achieve consistency and comparability between reporting periods.

¹ Where Adjusted LBITDA is LBITDA after stock impairment, share-based compensation, acquisition-related costs and foreign exchange losses

² Where FTE is the number of full-time equivalents

Financial Review (continued)

Notably from the table on the previous page:

- Revenue for the 15 months to March 2020 was £2 million lower than the 12 months to December 2018
- Operating loss for the 15 months to March 2020 was £0.1 million lower than for the previous 12-month period
- Cash at the end of March 2020 was £3.4 million lower than the end of December 2018
- Depreciation increased due to the implementation of IFRS16
- Share based compensation charges reflect the fair value of share options granted to employees over the vesting period of these options. Please see note 34 for more information.

Financial items of note during the period other than those set out above were:

- No cash has been raised from shareholders since October 2018
- Cash received from customers during the fifteen-month period was £4.1 million
- Trade and other receivables reduced by £1.2 million during the period and ended at £3.7 million
- R&D tax credit at a similar level to 2018 (£0.8 million) however for a fifteen-month period against a one year period
- The implementation of IFRS 16 - Leases
- Change of auditor from Deloitte LLP to RSM UK Audit LLP
- Change of financial year end from 31 December to 31 March

During the period an advance against the R&D tax credit was received. This will be repaid out of the R&D tax credit funds when received from HMRC. In addition, letters of credit, invoice discounting and advance payments have been negotiated on recently won contracts to help with working capital requirements.

Key Performance Indicators (KPIs)

The financial key performance indicators for the Group are as set out in the key financial results table above. FY2020 revenues were 45% down on 2018 comparatives as a result of delays to contracts due to the Indian elections. Operating costs for the fifteen-month period reduced by 16% against twelve months for 2018, LBITDA by 7%, while adjusted LBITDA increased by 2% due to lower share based compensation charges and stock provisions. The Group's average headcount reduced by 2.

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 the financial year ending March 2021, continues to be 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 Group revenues continue to grow. A number of avenues continue to be pursued to secure working capital facilities to help ease cash flows and mitigate against any unforeseen delays in deliveries or customer payments.

Going concern

To assess the ability of CyanConnote Holdings plc ("Group") to continue as a going concern, the directors have prepared a business plan and cash flow forecast for the period to 31 March 2022 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. These detailed cashflow scenarios include Letters of Credit which have been secured from customers against contracts recently won.

At 31 March 2020 the Group had cash reserves of £1.2 million (2018: £4.6m) and based on detailed cash flows provided to the Board within the FY2021/22 budget, there is sufficient cash to see the Group through to profitability based on its standard operating model. 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

Financial Review (continued)

first continue to look at measures such as cost reduction and working capital facilities as ways to conserve cash within the business. The Company has offers for convertible and secured loans which it could accept should such a requirement arise.

In addition, during 2020 the COVID-19 pandemic has affected the global economy and businesses around the world, particularly during the lockdowns in each country. At the time of writing this report, the effects continue to be seen.

To assist with working capital, the Group received an advance of £560,000 against its R&D tax credit in February 2020. This amount will be repaid out of the HMRC receipt which is expected to be received by October 2020.

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.

Financial Risk Management Objectives and Policies

Details of the Group's financial risk management objectives and policies are disclosed in note 35 to the financial statements.

Dividends

The directors do not recommend the payment of a dividend (2018: £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.



Heather Peacock
Chief Financial Officer
3 September 2020

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 Group 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 2020 Strategic Report on pages 7 to 15.

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. These features have allowed utilities to safely read meters and carry on business remotely during the COVID-19 pandemic.

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 14 of our Strategic Report in the 2020 Annual Report. During the COVID-19 pandemic the Group has adapted its working practices to ensure the health and safety of all employees. Regular discussions are held with employees regarding their wellbeing, and regarding best working practices while the pandemic continues to be present.

The Group's revenue is dependent on delivering complex projects to specific markets and therefore ensures that cross-functional teams including senior employees work together with customers and local, in-country employees and partners to ensure the successful integration of its products and technologies.

Our customers and partners 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 both face to face meetings and online discussions where travel is not possible (such as

Corporate Governance Statement (continued)

during the COVID-19 pandemic).

Following the Indian elections in 2019, a number of round table meetings and discussions were called with key industry players in the power sector to work on a strategy regarding the rollout of 250 million smart meters. CyanConnode was invited to these industry meetings and has contributed to proposed policies and requirements for the rollout.

Our Environmental policy and Health and Safety Management policy, see pages 14 to 15 of the 2020 Annual Report, provides information on the Group's approach to the environment. The Group has recently been awarded accreditation for the ISO14001, ISO9001 (2015) and ISO27001 standards.

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. This has been of particular importance during the COVID-19 pandemic and the Group has found its processes to be robust minimising any impact of the lockdown.

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 11 to 14 of the 2020 Annual Report 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 in 2019 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 Group 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, and provides training to employees on this policy.

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 periodically.

It has been agreed that the Board will at any time consist of either two or three Executive Directors and three Non-

Corporate Governance Statement (continued)

Executive Directors. One of the Non-Executive Directors is 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 two 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 strategy meetings with senior members of staff presenting on areas of the business and business strategy.

Board and Committee attendance during the period

Director	Board	AC ³	RC ⁴
John Cronin	16 (16)	-	-
Heather Peacock*	16 (16)	3 (3)	1 (1)
Henry Berry	2 (4)	-	-
David Johns-Powell	13 (16)	-	-
Chris Jones	11 (16)	3 (3)	1 (1)
Peter Tyler	11 (16)	3 (3)	1 (1)
Paul Ratcliff	4 (6)	1 (1)	-

* Heather Peacock attended the Audit Committee meetings by invite, and the Remuneration Committee meeting in her capacity as Company Secretary

The nominations and appointments of new Board members during the period were dealt with via full Board meetings and discussions rather than via Nominations Committee meetings

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/> and on page 16 of the 2020 Annual Report.

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.

³ Audit Committee

⁴ Remuneration Committee

Corporate Governance Statement (continued)

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' skills and knowledge were kept up to date by receiving updates from the Company Secretary (who is a Member of the Governance Institute and receives regular updates from the Institute and other bodies) and external advisers, where relevant, on corporate governance matters. Corporate governance is an agenda item for all Board Meetings where updates are provided and discussed. Chris Jones attended a course regarding the Role of the Non-executive Director, put on by the Institute of Directors.

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. Chris Jones is the Independent Non-Executive Director.

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

The Board has completed an evaluation of Board performance and effectiveness in late 2018 which continued into the first quarter of 2019. 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.

There were changes to two Board members during the period, with Paul Ratcliff and Harry Berry stepping down from their roles and Peter Tyler and Chris Jones joining the Board.

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. Since the last evaluation was only completed in March 2019, no further evaluation was done during the period but will be carried out during the next financial period.

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.

Upon commencement of an employee's contract, they are given with an induction programme to provide them with all information relating to Company procedures and values. The Company operates from two offices, one in Cambridge in the UK and one in Gurgaon in India. Our comprehensive set of policies and procedures, many of which fall under the Company's ISO accredited 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 15 of the 2020 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 pages 23 - 26 of the Corporate Governance Statement and on the Company's website at <https://cyanconnode.com/investors/governance/>

Corporate Governance Statement (continued)

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.

Board Composition and Responsibility

At 31 March 2020 the Board comprised five directors, including the Executive Chairman, the Chief Financial Officer and three non-executive directors, one of whom is considered to be independent. Three of the five directors in post at 31 March 2020 served throughout the fifteen-month period.

Name	Role	Appointed	Resigned	In post 1 Jan 2019	In post 31 Mar 2020
Executive					
John Cronin	Executive Chairman	20/03/12		Yes	Yes
Heather Peacock	Chief Financial Officer*	25/07/18		Yes	Yes
Henry Berry	Chief Operating Officer	16/05/14	31/03/19	Yes	No
Non-executive					
Paul Ratcliff		01/01/16	10/06/2019	Yes	No
William David Johns-Powell		25/07/18		Yes	Yes
Christopher Jones		19/03/19		No	Yes
Peter Tyler		19/03/19		No	Yes

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

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.

Board Subcommittees

The Board has three subcommittees as set out below. Each subcommittee has Terms of Reference, approved by the Board, which set out the main roles and responsibilities and remit of each committee. A set of Matters Reserved for the Board and a Board Charter, also approved by the Board, govern the way in which the Board operates and sets out the matters for which the Board has responsibility and those for which the Executive Directors have responsibility.

Audit committee: Peter Tyler (Chairman), Chris Jones. Paul Ratcliff held the position of Chairman from 1 January to 19 March 2019.

Corporate Governance Statement (continued)

The Audit Committee Report on page 32 sets out the roles and responsibilities of the Audit Committee.

Remuneration committee: Chris Jones (Chairman), Peter Tyler. Paul Ratcliff held the position of Chairman from 1 January to 19 March 2019.

The Directors' Remuneration Report on page 27 sets out the roles and responsibilities of the Remuneration Committee and the Remuneration Policy for Executive Directors.

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

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.

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



John Cronin
Executive Chairman
3 September 2020

Directors' Remuneration Report

Remuneration Committee

Paul Ratcliff served as chairman of the Remuneration Committee from 01 January 2019 to 18 March 2019. 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 to ensure they remain competitive and also align with the success of the Company.

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 £5.5m they have invested thus far (see page 29 for more details of their shareholdings).

	Total investment to date £000	Annual remuneration FY 2020 £000 *	Total investment as % of remuneration
John Cronin	986	190	519%
David Johns-Powell	3,759	-	n/a
Heather Peacock	75	138	54%
Peter Tyler	667	-	n/a
Total	5,487	328	1,573%

*The remuneration used for this exercise is annual and therefore represents the 12-month period from January to December 2019.

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 (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. No bonus payments were made to Directors for FY 2020 (2018: £nil).

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 at 31 March 2020 Number	As at 31 December 2018 Number
John Cronin	17/11/17	17/11/27	0.336	558,101	558,101
	25/01/18	25/01/28	0.29	200,000	200,000
				758,101	758,101
Heather Peacock	17/11/17	17/11/27	0.308	619,424	619,424
	11/12/17	11/12/27	0.40	25,000	25,000
	20/06/18	20/06/28	0.28	745,222	745,222
				1,389,646	1,389,646

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.

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 CyanConnote 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 the 15-month period to March 2020 no JSOP shares were granted to any directors of the Company. At 31 March 2020, shares held by directors under this scheme were as follows:

Director	Grant Date	Expiry Date	Participation Price £	As at 31 March 2020 Number	As at 31 December 2018 Number
John Cronin	23/10/17	23/10/22	0.4964	3,219,200	3,219,200
	23/10/17	23/10/22	0.333	1,382,425	1,382,425
				4,601,625	4,601,625
Heather Peacock	23/10/17	23/10/22	0.434	267,396	267,396
	23/10/17	23/10/22	0.333	296,568	296,568
				563,964	563,964

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 (continued)

Directors' Interests in Shares in the Company

Director	Shares
<i>John Cronin</i>	
As at 1 January 2019 and 31 March 2020	3,413,467
<i>David Johns-Powell</i>	
As at 1 January 2019 and 31 March 2020	17,583,490
<i>Peter Tyler</i>	
As at 1 January 2019 and 31 March 2020	2,449,004
<i>Heather Peacock</i>	
As at 1 January 2019 and 31 March 2020	278,255
<i>Total</i>	
As at 1 January 2019 and 31 March 2020	23,724,216

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

Pension Arrangements

Executive directors are entitled to become members of the Company pension scheme. This is a defined contribution scheme whereby the Company contributes at a rate of 5% of the executive's gross salary. Heather Peacock is a member of the Company pension scheme. John Cronin is not a member of this 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
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 period are set out in the table below.

Directors' Remuneration Report (continued)

Directors' Emoluments

The amounts for FY20 cover the fifteen-month period ending March 2020

Name of Director	Salary £	Fees £	Pension and other benefits £	Bonus £	Total for FY 2020 (15 months) Services £	Total for 2019 (12 months) Services £	Total for 2018 (12 months) Services £
Executive							
John Cronin (Note 1)	37,500	205,000	-	-	242,500	190,000	235,000
Harry Berry (Note 2)	205,288	-	-	-	205,288	205,288	128,460
Heather Peacock (Note 3)	162,500	-	9,531	-	172,031	138,120	72,506
Non-Executive							
Chris Jones (Note 4)	31,250	-	-	-	31,250	23,750	-
Peter Hutton	-	-	-	-	-	-	26,250
Peter Tyler	-	-	-	-	-	-	-
David Johns-Powell	-	-	-	-	-	-	-
Paul Ratcliff (Note 5)	22,396	-	1,344	-	23,740	23,740	42,300
Simon Smith	-	-	-	-	-	-	66,212
Total	458,934	205,000	10,875	-	674,809	557,148	570,728

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. In July 2019 John Cronin's remuneration package was adjusted to a basic salary (including fees) of £210,000 and bonus of £140,000 (only payable upon achievement of certain objectives). No bonus was paid to Mr Cronin for the fifteen months to March 2020 (2018: £nil). From April 2020, Mr Cronin has been receiving a 30% pay reduction following the COVID-19 outbreak. This is expected to continue for approximately six months.

Note 2

Harry Berry resigned from the Board of Directors in March 2019 and continued with the Group until the end of June 2019 in a non-board capacity. His salary set out above includes payment in lieu of notice of £150,000.

Note 3

The figure for 2018 Services relates to the period of appointment in July 2018 to December 2018. From April 2020, Heather Peacock has been receiving a 20% pay reduction following the COVID-19 outbreak. This is expected to continue for approximately six months.

Note 4

From April 2020, Chris Jones has been receiving a 25% pay reduction following the COVID-19 outbreak. This is expected to continue for approximately six months.

Note 5

Paul Ratcliff received £1,146 for additional services provided (included within his salary set out above) relating to the Group's ISO accreditations. He resigned from the Board of Directors in June 2019.

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.

Directors' Remuneration Report (continued)

Approval

This report was approved by the Board of directors on 3 September 2020 and signed on its behalf by:

Chris Jones

Chairman of the Remuneration Committee

Audit Committee Report

Introduction

This Audit Committee Report has been prepared by the Audit Committee and approved by the Board.

Membership and meetings held

The Audit Committee is chaired by Peter Tyler and its other member is Chris Jones (both Non-Executive Directors). The Committee met three times during the fifteen-month period ended March 2020, linked to events in the Company's financial calendar. The Chief Financial Officer also attended each of these meetings. The external audit partner attended the meetings held in connection with the Company's Report and Accounts for the periods ended 31 December 2018 and 31 March 2020.

Role of the Audit Committee

The Terms of Reference for the Audit Committee, which have been prepared in accordance with the QCA Code, provide for the Committee's main responsibilities to include:

- Monitoring the integrity of the financial statements of the Company and its Group;
- Reviewing and challenging the consistency of accounting policies and standards;
- Reporting back to the Board on any aspects of the proposed financial reporting of the Group with which it is not satisfied;
- Keep under review the adequacy and effectiveness of the Company's and Group's internal financial controls and systems;
- Reviewing the risk identification and risk management processes of the Group, and
- Reviewing the Group's procedures to prevent bribery and corruption in addition to ensuring that appropriate whistleblowing arrangements are in place.

Internal Audit

Due to the current size of the Group the audit committee obtain sufficient oversight over the operations through engagement with the Group and attendance of board meetings. It is therefore not considered appropriate to have an internal audit function.

Key Areas of Focus

The Committee's particular areas of focus during the year were as follows:

- Review of the 2018 Annual Report;
- Review of the interim results for the six months ended 30 June 2019;
- Review of the interim results for the twelve months ended 31 December 2019;
- Ongoing review of the Group's cash forecasts, including any impact from COVID-19;
- The appointment of the Group's new auditor, RSM UK Audit LLP;
- The change of accounting date for the Company and subsidiaries to 31 March.

Management of Risk

As in previous years, the oversight of risk, and risk management are the responsibility of the Board as a whole, rather than a sub-committee. This is put into effect by the preparation of a Risk Register, maintained as part of the ISO 9001 procedures.

Committee Evaluation

During the period a new Audit Committee was appointed as part of a full Board evaluation. The committee will be evaluated as part of each evaluation of the Board, expected to take place on an annual basis.

Approval

This report was approved by the Board of directors on 3 September 2020 and signed on its behalf by:

P Tyler

Peter Tyler
Chairman of the Audit Committee

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 fifteen-month period ended 31 March 2020.

The Group and Company's reporting date has been changed from 31 December to 31 March to align with the reporting date of the Indian subsidiary, which is required by law to have a year end of 31 March. The current financial period represents the 15-month period to 31 March 2020 while the prior financial period covered the year to 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 31 December 2021 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 Financial Review on pages 19 to 20 set out more detail regarding the Board's assessment of its going concern position.

Financial Risk Management Objectives and Policies

Details of the Group's financial risk management objectives and policies are set out in note 35 of the financial statements.

Dividends

The directors' dividend policy is set out in the Financial Review on page 20.

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 27. At 31 March 2020, 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 34.

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 pages 21 - 26.

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

Capital Risk Management

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

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

Directors' Report (continued)

ended 31 December 2018 and 31 March 2020.

Enterprise Investment Scheme (EIS)

Since the end of January 2020, CyanConnode's shares no longer qualify under the Enterprise Investment Scheme (EIS), which is a scheme that provides tax incentives in the form of a variety of income tax and capital gains tax reliefs to investors who invest in certain qualifying companies. From CyanConnode's incorporation until November 2018, a number of high net worth individuals looking to build tax efficient EIS portfolios invested in CyanConnode and received these tax reliefs.

During the fifteen month period to end of March 2020 the Company did not issue any shares under the EIS scheme.

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)

Non-Executive Directors

Paul Ratcliff (resigned 10 June 2019)
William David Johns-Powell
Chris Jones (appointed 19 March 2019)
Peter Tyler (appointed 19 March 2019)

The interests of the directors in the shares of the Company are shown in the remuneration committee report on page 29.

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. As a high growth technology company, the focus is to develop unique technology that takes CyanConnode forward with its strategy to be a world leader in the design and development of Narrowband RF mesh networks that enable Omni Internet of Things (IoT) communications. New products developed during the period are described in detail in the Chairman's Statement and the Strategic Report earlier in this report.

The total expenditure on research and development including staff costs in the period was £2,381,000 (2018: £2,466,000).

Directors' indemnity arrangements

CyanConnode has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its Directors.

Significant Holdings

The Company had been notified of the following voting rights of shareholders in the Company at 3 September 2020 and at the same date its issued share capital consisted of 183,319,833 Ordinary Shares:

Name	Percentage of issued share capital	Number of ordinary shares
William David Johns-Powell	9.59%	17,583,490
Herald Investment Management Limited	6.76%	12,401,579
Nightingale Investment Co Limited	4.57%	8,382,352
Biggles Enterprise Limited	4.55%	8,333,333

Directors' Report (continued)

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 constant at 20 days (2018: 68 days).

Auditor

RSM UK Audit LLP were appointed as auditor to the company during the period to fill a casual vacancy. In accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

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;
- The company has chosen, in accordance with the Companies Act 2006 s414C(11), to set out in the Chairman's Statement, Financial Review, Strategic Report and Corporate Governance Statement, certain information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 Sch. 7 to be contained in the Directors' Report; 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.

Information in other reports

The company has chosen, in accordance with the Companies Act 2006 s414C(11), to set out in the Chairman's Statement, Financial Review, Strategic Report and Corporate Governance Statement, certain information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 Sch. 7 to be contained in the Directors' Report.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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



John Cronin
Executive Chairman
3 September 2020

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 Group and Company financial statements for each financial period. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the parent Company financial statements under IFRSs as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

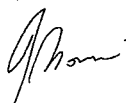
Under Company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of profit or loss of the Group for that period. In preparing each of the Group and Company financial statements the directors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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose them with reasonable accuracy at any time the financial position of the Group and 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 Group and 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.

By order of the Board



John Cronin
Executive Chairman
3 September 2020

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

Opinion

We have audited the financial statements of CyanConnode Holdings plc (the 'parent company') and its subsidiaries (the 'group') for the 15 month period ended 31 March 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statements of financial position, consolidated statement of changes in equity, consolidated cash flow statement, company balance sheet, company statement of changes in equity, company cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the 15 month period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities 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 parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME 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 related to going concern

We draw attention to the going concern wording in note 3 to the financial statements where the directors have identified that there is a certain level of sales and cash receipts required from customers to allow the group to continue trading without additional finance. As outlined in note 3, the reliance on customer receipts and the potential need for additional financing indicate that a material uncertainty exists that may cast significant doubt on the group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Summary of our audit approach

Key audit matters	Group
	• Revenue recognition • Impairment
	Parent company
	• Impairment
Materiality	Group
	• Overall materiality: £325,000 (2018: £380,000) • Performance materiality: £244,000
	Parent Company
	• Overall materiality: £110,000 (2018: £160,000) • Performance materiality: £82,500
Scope	Our audit procedures covered 100% of revenue, total assets and loss before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company 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 related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Group - revenue recognition

Key audit matter description	The group's contracts involve the supply of various products and services. There is management judgement required to determine the performance obligations in the contracts, allocate revenue to each of these obligations and ensure income is appropriately recognised in line with the requirements of IFRS 15.
How the matter was addressed in the audit	We reviewed and challenged management's assessment of the performance obligations identified for a sample of contracts. We then performed cut-off testing and substantive testing procedures to validate that the revenue recognised in the year was in line with the contractual terms and IFRS 15 requirements. We also considered the adequacy of the group's revenue recognition accounting policy as disclosed in note 3.

Group - impairment

Key audit matter description	The group has a significant goodwill balance of £1.93m which is subject to an annual impairment review. In addition, due to the loss-making nature of the group, other assets including the other intangibles assets are also subject to an impairment review and the need for an impairment has to be considered. In performing the impairment review, management judgement is required in a number of areas including estimating future growth and cashflows as well as determining an appropriate discount rate.
How the matter was addressed in the audit	We critically assessed the impairment review performed by management including a review of the client's board approved forecasts and discounted cashflow calculations to assess whether the assumptions appeared reasonable. We also evaluated management's sensitivity analysis around the key assumptions to ascertain the extent of change in those assumptions that individually or collectively would be required to lead to an impairment.

Parent company - impairment

Key audit matter description	The parent company has significant investments in its subsidiaries and has large receivable balances due from subsidiary undertakings. Given the loss-making nature of the subsidiaries, the need for an impairment of these balances has to be considered. This involves management judgement including estimating future growth and cashflows.
How the matter was addressed in the audit	We critically assessed the impairment review performed by management over the carrying value of investments and group debtor balances. Our work included a review of the client's assessment of the potential for impairment including a review of board approved forecasts and discounted cashflow calculations to assess whether the assumptions appeared reasonable.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£325,000 (2018: £380,000)	£110,000 (2018: £160,000)
Basis for determining overall materiality	5.2% of loss of before tax	1.1% of net assets
Rationale for benchmark applied	Loss before tax chosen as the Group is profit oriented	Net assets was chosen as the entity is a non-trading holding company
Performance materiality	£243,750	£82,500
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £15,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £5,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

	Number of components	Revenue	Total assets	Loss before tax
Full scope audit	4	100%	99%	97%
Specific audit procedures	1	-	1%	3%
Total	5	100%	100%	100%

All audit procedures were undertaken by the group auditor with no reliance placed on component auditors.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on the information provided for 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.

Matters to which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Directors' responsibilities

As explained more fully in the directors' responsibilities statement set out on page 36, 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 objectives and responsibilities in relation to the financial statements

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

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

Use of our report

This report is made solely to the 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.

RSM UK Audit LLP

NEIL STEPHENSON (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Second Floor, North Wing East, 126-130 Hills Road
Cambridge
CB2 1RE
3 September 2020

Consolidated income statement

For the 15-month period ended 31 March 2020	Note	15 months 31 Mar 2020 £000	Year 31 Dec 2018 £000
Continuing operations			
Revenue	5	2,451	4,465
Cost of sales		(1,081)	(1,724)
Gross profit		1,370	2,741
Other operating costs	7	(6,827)	(8,589)
Amortisation and depreciation		(773)	(472)
Total operating costs		(7,600)	(9,061)
Operating loss		(6,230)	(6,320)
Investment income	10	17	13
Finance costs	11	(30)	(2)
Loss before tax		(6,243)	(6,309)
Tax credit	12	576	927
Loss for the period		(5,667)	(5,382)
Loss per share (pence)			
Basic	13	(3.27)	(4.60)
Diluted	13	(3.27)	(4.60)

Consolidated statement of comprehensive income

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

For the period ended 31 March 2020	15 months 31 Mar 2020 £000	Year 31 Dec 2018 £000
Loss for the period	(5,667)	(5,382)
Exchange differences on translation of foreign operations	56	54
Total comprehensive loss for the period	(5,611)	(5,328)

Consolidated statement of financial position

As at 31 March 2020	Note	31 Mar 2020 £000	31 Dec 2018 £000
Non-current assets			
Intangible assets	14	4,558	5,048
Goodwill	16	1,930	1,930
Fixed asset investments	20	93	44
Property, plant and equipment	17	43	73
Right of use asset	18	274	-
Total non-current assets		6,898	7,095
Current assets			
Inventories	21	308	319
Trade and other receivables	22	3,676	4,827
Cash and cash equivalents	23	1,172	4,564
Total current assets		5,156	9,710
Total assets		12,054	16,805
Current liabilities			
Trade and other payables	24	(1,491)	(1,994)
Short-term borrowings	25	(560)	-
Lease liabilities	18	(121)	-
Total current liabilities		(2,172)	(1,994)
Net current assets		2,984	7,716
Non-current liabilities			
Lease liabilities	18	(153)	-
Deferred tax liability	26	(912)	(690)
Total non-current liabilities		(1,065)	(690)
Total liabilities		(3,237)	(2,684)
Net assets		8,817	14,121
Equity			
Share capital	27	3,656	3,648
Share premium account	28	69,547	69,515
Own shares held	29	(3,253)	(3,253)
Share option reserve	30	2,028	1,761
Translation reserve	31	(20)	(76)
Retained losses	32	(63,141)	(57,474)
Total equity being equity attributable to owners of the Company		8,817	14,121

The financial statements of CyanConnode Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 3 September 2020. They were signed on its behalf by:



John Cronin
Director

Consolidated statement of changes in equity

For the 15-month period ended 31 March 2020

	Share Capital £000	Share Premium Account £000	Own Shares Held £000	Share Option Reserv e £000	Translation Reserve £000	Retained Losses £000	Total Equity £000
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
Total transactions with owners	1,089	3,950	-	445	-	-	5,484
Balance at 31 December 2018	3,648	69,515	(3,253)	1,761	(76)	(57,474)	14,121
Loss for the period	-	-	-	-	-	(5,667)	(5,667)
Other comprehensive income for the period	-	-	-	-	56	-	56
Total comprehensive income for the period	-	-	-	-	56	(5,667)	(5,611)
Issue of share capital	8	32	-	-	-	-	40
Credit to equity for share options	-	-	-	267	-	-	267
Total transactions with owners	8	32	-	267	-	-	307
Balance at 31 March 2020	3,656	69,547	(3,253)	2,028	(20)	(63,141)	8,817

Reserve	Note	Description and purpose
Share premium account	28	Amount subscribed for share capital in excess of nominal value
Own shares held	29	Own shares held are those issued to the Employee Benefit Trust
Share option reserve	30	Represents the accumulated balance of share-based payment charges recognised in respect of share options granted by the Company less transfers to accumulated deficit in respect of options exercised or cancelled/lapsed
Translation reserve	31	The translation reserve records the cumulative exchange differences arising from the translation of the financial statements of overseas subsidiaries
Retained losses	32	Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income

Consolidated cash flow statement

For the 15-month period ended 31 March 2020

	Note	15 months 31 Mar 2020 £000	Year 31 Dec 2018 £000
Net cash outflow from operating activities	33	(3,677)	(5,843)
<i>Investing activities</i>			
Interest received		17	13
Purchases of property, plant and equipment	17	(20)	(41)
Capitalisation of software development	14	(36)	-
(Purchase) / disposal of investments	20	(49)	4
Net cash used in investing activities		(88)	(24)
<i>Financing activities</i>			
Interest paid		(4)	(2)
Cash inflow from borrowings	25	560	-
Capital repayments of lease liabilities	18	(197)	-
Interest paid on lease liabilities	18	(26)	-
Proceed on issue of shares	27	40	5,467
Share issue costs		-	(428)
Net cash from financing activities		373	5,037
Net decrease in cash and cash equivalents		(3,392)	(830)
Cash and cash equivalents at beginning of the period		4,564	5,394
Cash and cash equivalents at end of the period		1,172	4,564

Consolidated movements in net cash

	At 1 January 2018 £'000	Cash flow £'000	Other non- cash movements £'000	At 31 December 2018 £'000
Year ended 31 December 2018				
Cash and cash equivalents	5,394	(830)	-	4,564
Net cash at end of year	5,394	(830)	-	4,564

Analysis of changes in net cash

	At 1 Jan 2019 £'000	Cash flow £'000	Other non- cash movements £'000	At 31 Mar 2020 £'000
For the 15-month period ended 31 March 2020				
Cash and cash equivalents	4,564	(3,392)	-	1,172
Short-term borrowings	-	(560)	-	(560)
Finance leases	-	223	(497)	(274)
	-	(337)	(497)	(834)
Net cash at end of period	4,564	(3,729)	(497)	338

Other non-cash movements include new lease liabilities and interest on lease liabilities.

Company balance sheet

As at 31 March 2020

	Note	31 Mar 2020 £000	31 Dec 2018 £000
Non-current assets			
Intangible assets	15	-	-
Investments in subsidiaries	19	9,105	7,898
Total non-current assets		9,105	7,898
Current assets			
Trade and other receivables	22	1,291	3,726
Cash and cash equivalents	23	551	4,210
Total current assets		1,842	7,936
Total assets		10,947	15,834
Current liabilities			
Trade and other payables	24	(119)	(196)
Short-term borrowings	25	(560)	-
Total current liabilities		(679)	(196)
Net current assets		1,163	7,740
Net assets		10,268	15,638
Equity			
Share capital	27	3,656	3,648
Share premium account	28	69,547	69,515
Share option reserve	30	2,028	1,761
Retained losses	32	(64,963)	(59,286)
Total equity being equity attributable to owners of the Company		10,268	15,638

The Company reported a loss for the financial period ended 31 March 2020 of £5.7m (2018: £6.6m).

The financial statements of CyanConnode Holdings plc (registered number 04554942) were approved by the board of directors and authorised for issue on 3 September 2020. They were signed on its behalf by:



John Cronin
Director

Company statement of changes in equity

For the 15-month period ended 31 March 2020

	Share Capital £000	Share Premium Account £000	Share Option Reserve £000	Retained Losses £000	Total Equity £000
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
Total transactions with owners	1,089	3,950	445	-	5,484
Balance at 31 December 2018	3,648	69,515	1,761	(59,286)	15,638
Loss for the period	-	-	-	(5,677)	(5,677)
Total comprehensive income for the period	-	-	-	(5,677)	(5,677)
Issue of share capital	8	32	-	-	40
Credit to equity for share options	-	-	267	-	267
Total transactions with owners	8	32	267	-	307
Balance at 31 March 2020	3,656	69,547	2,028	(64,963)	10,268

Company cash flow statement

For the 15-month period ended 31 March 2020

	15 months 31 Mar 2020 £000	Year 31 Dec 2018 £000
Loss for the year	(5,677)	(6,591)
Impairment charges	4,870	6,466
Operating cash flows before movement in working capital	(807)	(125)
Increase in receivables	(2,435)	(4,979)
(Decrease) / increase in payables	(77)	65
Net cash outflow from operating activities	(3,319)	(5,039)
Investing activities		
Additional investment in subsidiaries	(940)	(401)
Net cash used in investing activities	(940)	(401)
Financing activities		
Cash inflow from short-term borrowing	560	-
Proceed on issue of shares	40	5,467
Share issue costs	-	(428)
Net cash from financing activities	600	5,039
Net decrease in cash and cash equivalents	(3,659)	(401)
Cash and cash equivalents at beginning of the period	4,210	4,611
Cash and cash equivalents at end of period	551	4,210

1. General information

CyanConnode Holdings plc, (Company Registered No. 04554942), is a public company limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office is Merlin Place, Milton Road, Cambridge CB40DP.

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 Standard and Interpretation

- IFRS 16

Its adoption has not had a significant impact on the comparative amounts reported in these Financial Statements due to the transition rules adopted under IFRS16:

IFRS 16 (effective date 1 January 2019) has brought all operating leases onto the balance sheet in line with the accounting treatment for finance leases. This has had an impact of increasing both assets and liabilities. The income statement impact has not been material as there are only a small number of leases.

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 recognising financial instruments at fair value. This relates to bank securities only. The principal accounting policies adopted are set out below.

As part of continued operational efficiency and cost management, the Group also aligned its financial year end with its Indian subsidiary, CyanConnode Private Limited, to 31 March. As a result of this change, the amounts presented in these financial statements are not entirely comparable with the prior period.

Changes in accounting policy

The Group has adopted IFRS 16 "Leases" in these financial statements using the modified retrospective transition approach where the initial right of use asset is equal to the present value of the future lease payments as at the date of transition (1 January 2019). The Group has reviewed the requirements of IFRS 16 and presented the financial information in these financial statements in note 18 Leases.

On adoption of IFRS 16, the group recognised lease liabilities in relation to a property lease which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining unavoidable lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6%.

Following the adoption of IFRS 16 the group has used the following practical expedient permitted by the standards:

- excluding initial direct costs for the measurement of the right of use asset at the date of initial adoption
- expedient not to reassess whether a contract is, or contains, a lease at the date of initial application

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").

3. Significant accounting policies (continued)

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 31 March 2022 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. These detailed cashflow scenarios include Letters of Credit which have been secured from customers against contracts recently won.

At 31 March 2020 the Group had cash reserves of £1.2 million (2018: £4.6m) and based on detailed cash flows provided to the Board within the FY2021/22 budget, there is sufficient cash to see the Group through to profitability based on its standard operating model. 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 first continue to look at measures such as cost reduction and working capital facilities as ways to conserve cash within the business. The Company has offers of convertible and secured loans which it could accept should such a requirement arise.

In addition, during 2020 the COVID-19 pandemic has affected the global economy and businesses around the world, particularly during the lockdowns in each country. At the time of writing this report, the effects continue to be seen.

To assist with working capital, the Group received an advance of £560,000 against its R&D tax credit in February 2020. This amount will be repaid out of the HMRC receipt which is expected to be received by October 2020.

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 Group financial statements include the financial statements of the Company and all of its subsidiary undertakings. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances and transactions are eliminated.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

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.

3. Significant accounting policies (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.

Revenue recognition

The Group supplies customers with hardware, software and services. Revenue is usually recognised according to the five-step approach under IFRS 15 Revenue from Contracts with Customers. This is how items are usually recognised however certain items may be recognised together depending on the specific terms in the contract:

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.

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 the 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.

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 period.

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 (includes the RF modules, gateways and HES software)

3. Significant accounting policies (continued)

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).

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 period.

Recoverability of revenue already recognised

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 operating expense and not as an adjustment of the amount of revenue originally recognised.

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.

The capitalised assets will be amortised over their useful lives of 5 years.

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 period under review.

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 period. 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

3. Significant accounting policies (continued)

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.

Intangible assets: software

Software is accounted for at cost and amortised in equal annual instalments over a period of 5 years which is its estimated useful economic life. Provision is made for any 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.

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.

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. The impact of reasonably possible changes in assumptions are disclosed in note 16.

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 to their estimated residual values on the following bases:

Fixtures and equipment	20% - 50% per annum
------------------------	---------------------

Right to use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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 the income statement.

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.

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 of financial assets

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.

3. Significant accounting policies (continued)

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 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.

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 Group does not have any derivative financial instruments (including no embedded derivatives within its customer contracts). The Group 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.

Employee benefits

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

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 cost of equity settled transactions with employees is measured by reference to the fair value on the date they are granted. Where there are no market conditions attaching to the exercise of the options, the fair value is determined using a range of inputs into the Black-Scholes pricing model. The fair value of equity-settled transactions is charged to profit or loss over the period in which the service conditions are fulfilled with a corresponding credit to a share option reserve in equity.

3. Significant accounting policies (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. On the exercise of share options, an amount equal to the fair value of the option at the date it was granted is transferred from the share option reserve into retained earnings.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

When the Company issues options or warrants for services rendered by a non-employee they are measured at fair value of the services received.

Leases

Low value leases and leases of less than one year are recognised on a straight-line basis over the lease term. On inception of other leases, 'right-of-use' assets have been capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term discounted at an incremental borrowing rate.

The Company's investments in subsidiaries

The Company recognises its investments in subsidiaries at cost less any impairment in its separate financial statements. Impairment is determined by assessing the recoverable amount of the investment. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in the Statement of Comprehensive Income.

New accounting standards and interpretations not yet adopted

For the purpose of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 January 2019. No new standards, amendments or interpretations to existing standards that have been published and that are mandatory for the Group's accounting periods beginning on or after 1 April 2020, or later periods, have been adopted early.

The new standards and interpretations are not expected to have any significant impact on the financial statements when applied.

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.

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

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 carrying value

We have modelled expected net cash flows from Connnode AB's UK SMIP contract over the lifetime of the contract and compared the net present value of these cashflows to the £4.5m carrying value of the related intangible asset at the end of March 2020. Sensitivities were run based on (i) a weighted average cost of capital of 18.7%; (ii) roll-out ceasing at the end of July 2025; and (iii) a range of 5% to 10% of UK households being in "not spots".

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

ii. Goodwill impairment

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.

iv. Share based payments

The Group currently has a number of share schemes that give rise to share-based charges. For the purposes of calculating the fair value of the share options, a Black-Scholes option pricing model has been used. It has been assumed that options will be exercised, on average, at the mid-point between vesting and expiring. The share price volatility used in the calculation is based on the actual volatility of the Company's shares, since 1 January 2017. The risk-free rate of return is based on the implied yield available on zero coupon gilts with a term remaining equal to the expected lifetime of the options at the date of grant.

v. Debtor and intercompany receivable recoverability

The Group tracks its trade 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 22) based on the amount of bad debts in the last fifteen 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 Group's operating loss by £34,000.

An amount of £489,000 (2018: £644,000) 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.

CyanConnnode Ltd has a loan of £57,245,613 with CyanConnnode Holdings plc with a current impairment provision of £56,727,452 (2018: £51,913,455). The Board has considered the provisions around impairment of inter-company indebtedness contained within IFRS9 "Financial Instruments".

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

vi. Investments in subsidiaries

The company has made an investment in each of its subsidiaries. Calculation of impairment against each is reviewed on a 6 monthly bases. No impairment has been identified as of 31 March 2020 using the Discounted Cashflow Method.

5. Revenue

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

	2020 £000	2018 £000
Continuing operations		
Hardware revenue - recognised at a point in time	1,721	2,601
Software licenses - recognised at a point in time	172	1,191
Revenue from non-recurring services - recognised at a point in time	-	489
Revenue from other services - recognised over time	558	184
Total revenue	2,451	4,465

6. Business and geographical segments

The Group has concluded that, as in 2018, 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 the period to end of March 2020 there were 2 customers (2018: 3) whose turnover accounted for more than 10% of the Group's total revenue as follows: -

	2020		2018	
	Turnover £000	Percentage of Total%	Turnover £000	Percentage of Total%
Customer A	906	37	1,468	33
Customer B	80	3	1,891	42
Customer C	215	9	454	10
Customer D	553	23	-	-

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

	2020		2018	
	Turnover £000	Percentage of Total%	Turnover £000	Percentage of Total%
India	1,055	43	3,398	76
Finland	553	23	5	-
Europe	391	16	407	9
Sweden	300	12	655	15
Rest of World	152	6	-	-
	2,451	100	4,465	100

7. Other operating costs

	2020 £000	2018 £000
Staff costs	4,094	3,782
Research and development costs (excluding staff costs)	649	1,472
Rent and site costs	61	250
Office expenses	309	245
Marketing and advertising	211	171
Professional fees	409	707
Audit and accountancy	153	230
Bad debts	18	64
Impairment of inventory	4	578
Share based charge	267	445
Foreign exchange	267	16
Other	385	629
Other operating costs	6,827	8,589

The total expenditure on research and development including staff costs in the period was £2,381,000 (2018: £2,466,000).

8. Auditor's remuneration

The analysis of auditor's remuneration, including associate firms, is as follows:

	2020 £000	2018 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	43	130
Fees payable to the Company's auditor and its associates for other services to the Group		
- The audit of the Company's subsidiaries pursuant to legislation	42	46
Total audit fees	85	176

9. Employee information

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

	2020 Number	2018 Number
Sales and administration	17	19
Research and development	22	23
Operations and logistics	11	10
	50	52

There are no employees in the parent company.

	2020 £000	2018 £000
Their aggregate remuneration comprised:		
Wages and salaries	3,691	3,363
Social security costs	281	314
Other pension costs	122	105
Share option charges	267	445
	4,361	4,227

At the period end there were employer's pension contributions provided for but not paid of £61,474 (2018: £121,000).

Key management compensation

The directors are of the opinion that key management personnel during the period 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.

	2020 £000	2018 £000
Their aggregate remuneration comprised:		
Wages, salaries and fees	664	565
Social security costs	49	35
Other pension costs	11	6
	724	606

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 pensionscheme.

The highest paid Director received total remuneration of £242,500 (2018: £235,000). Please see page 30 for the details.

10. Investment income

	2020 £000	2018 £000
Interest revenue:		
Bank deposits	17	13

Investment revenue is all earned on cash and cash equivalents.

11. Finance costs

	2020 £000	2018 £000
Interest on bank overdrafts	4	2
Interest on finance lease liabilities	26	-
Total finance costs	30	2

Connode AB has an overdraft facility for SEK 2 million (£175k) secured against the assets of Connode AB. The balance on this facility was £nil at 31 March 2020 (2018: £nil).

12. Tax

	2020 £000	2018 £000
<i>Current tax:</i>		
UK corporation tax on profits of the period	(795)	(822)
Adjustments in respect of prior periods	(2)	63
<i>Deferred tax (note 26)</i>		
Changes in tax rates	(44)	-
Origination and reversal of timing differences	265	(168)
Total tax credit	(576)	(927)

	2020 £000	2018 £000
Loss on ordinary activities before tax	(6,243)	(6,309)
Tax on loss at standard corporation tax rate of 19% (2018: 19%)	(1,186)	(1,199)
Effects of:		
Expenses not deductible for tax purposes	419	52
Capital allowances in excess of depreciation	1	(1)
Other short-term timing differences	3	(67)
Losses surrendered for R&D tax credit	1,042	1,080
R&D tax credit	(1,384)	(1,432)
Unrelieved tax losses not provided for	622	600
Difference in tax rates	(91)	(23)
Adjustment in respect of prior period	(2)	63
Total tax charge/(credit) for the period	(576)	(927)

Factors affecting tax charge in future years

The Finance Act 2020 provided for the main rate of UK corporation tax to remain at 19%, thus cancelling the enacted reduction to 17%. It was substantively enacted on 17 March 2020, and as such the unrecognised deferred asset at the balance sheet date has been calculated at 19%, reflecting the tax rate at which it may be utilised in future periods. The Swedish tax rate reduced from 22% to 21.4% with effect from 1 January 2019, and will reduce to 20.6% from 1 January 2021, with the deferred tax being calculated at this lower rate, reflecting the time at which it may be utilised. The Indian effective tax rate of 34.61% reduced to 25.17% from 1 April 2019 and the deferred tax has been calculated at this rate.

13. Loss per share

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

	2020	2018
Loss for the purposes of basic loss per share being net loss attributable to equity holders of the parent (£000)	(5,667)	(5,382)
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share (excluding own shares held)	173,047,934	116,975,780
Loss per share (pence)	(3.27)	(4.60)

The weighted average number of shares and the loss for the year for the purposes of calculating diluted loss per share are the same as for the basic loss per share calculation. This is because the outstanding share options would have the effect of reducing the loss per share and would not, therefore, be dilutive under the terms of IAS 33.

14. Intangible Assets (Group)

	Software £000	Software Development £000	SMIP Intangible £000	Total £000
Cost				
Balance at 1 January 2018 and 31 December 2018	144	-	6,100	6,244
Additions	-	36	-	36
Balance at 31 March 2020	144	36	6,100	6,280
Amortisation				
Balance at 1 January 2018	144	-	631	775
Charge for year	-	-	421	421
Balance at 31 December 2018	144	-	1,052	1,196
Charge for the period	-	-	526	526
Balance at 31 March 2020	144	-	1,578	1,722
Carrying amount				
At 31 March 2020	-	36	4,522	4,558
At 31 December 2018	-	-	5,048	5,048

Smart Metering Implementation Programme ('SMIP') relates to a contract acquired with the Connode Group in 2016 to partner Toshiba and Telefonica 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. The amortisation charge for the period is included in administration costs.

15. Intangible assets (Company)

	Software £000	Total £000
Cost		
Balance at 1 January 2018, 31 December 2018 and 31 March 2020	144	144
Amortisation		
Balance at 1 January 2018, 31 December 2018 and 31 March 2020	144	144
Carrying amount		
At 1 January 2018, 31 December 2018 and 31 March 2020	-	-

16. Goodwill

	Group £000
Cost at 1 January 2018, 31 December 2018 and 31 March 2020	1,930
Carrying amount at 31 December 2018 and 31 March 2020	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:

- Pre-tax discount rate 18.7%
- Compound annual growth rate in revenue over next five years 20%
- Growth rate in perpetuity 5%, reflecting the rate of the countries to which the goodwill is associated

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 20% 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 in the main countries in which the Group operates are expected to be higher at around 8% to 10% per annum). Using the above assumptions does not show a requirement for an impairment to goodwill, however a failure to achieve the expected revenue growth could make an impairment to goodwill possible.

Based upon this impairment review the recoverable amount exceeds its carrying amount by £8.1m (2018: £9.1m). The recoverable amount is most sensitive to changes in the sales growth. For example, a 1% reduction in the perpetual growth rate would reduce the terminal value by £1.1m, however a 1% increase in sales growth rate per year would increase the terminal value by £0.8 million.

17. Property, plant and equipment

	Fixtures and equipment £000
Group	
Cost	
At 1 January 2018	291
Additions	41
At 31 December 2018	332
Additions	20
At 31 March 2020	352
Accumulated Depreciation	
At 1 January 2018	208
Charge for the year	51
At 31 December 2018	259
Charge for the period	50
At 31 March 2020	309
Carrying Amount	
At 31 March 2020	43
At 31 December 2018	73

At 31 March 2020 the Group had no contractual commitments outstanding for the acquisition of property, plant and equipment (31 December 2018: £nil).

18. Leases**Right of use asset**

Group	Building £000
Adoption of IFRS16 at 1 January 2019	471
Additions	-
At 31 March 2020	471

Accumulated Depreciation

At 1 January 2019	-
Charge for the period	197
At 31 March 2020	197
Carrying Amount	
At 31 March 2020	274
At 31 December 2018	-

Movements in the year

	Lease Liability £000
Adoption of IFRS16 on 1 January 2019	471
Payments	(223)
Interest	26
Lease liability 31 March 2020	274

Lease liabilities	2020
	£'000
Current	121
Non - Current	153
As at 31 March 2020	274

Amounts recognised in Income Statement	2020
	£'000
Depreciation	197
Interest	26
15 months to 31 March 2020	223

Expenses relating to leases of low-value assets that are not shown above as short-term leases in the period (included in other operating costs)	47
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The group leases its head office property on a term of 3 years.

All lease amounts are recognized where there is a reasonable certainty that the lease will be extended beyond its break point, the assumption is made that the lease will continue to the end of the lease term.

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Reconciliation of operating lease commitments at 1 January 2019 to right-of-use assets and lease liabilities recognised on adoption of IFRS 16

	£'000
Operating lease commitments as at 1 Jan 2019	-
New lease commitments signed during the period	509
Discounted leases using the group borrowing rate as at 1 Jan 2019	(38)
Lease liability recognised at 1 January 2019	471

19. Subsidiaries

Investment in subsidiaries

	Company 2020 £000	Company 2018 £000
As at 1 January	7,898	7,436
Capital contribution in respect of share-based payment	267	445
Investment in CyanConnode Pvt Ltd	940	401
Impairment	-	(384)
As at 31 March and December	9,105	7,898

Netted off the carrying value of investments at the period end are impairments of £5,834k (2018: £5,834k).

In 2020, CyanConnode Holdings plc invested £940,000 (2018: £401,000) in CyanConnode Pvt Ltd (in India) to fund working capital. In 2020, no impairment charge (2018: £384,000) was booked against the carrying value of the parent company's investment in its subsidiaries.

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 share 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 March - The principal activity of the Company is research and development, and to market and sell the Group's range of products
CyanConnode Private Limited B-41 Panchsheel Enclave New Dehli-110017 India	100% of the issued share 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
Connode Holding AB Jarnvagsgatan 10 172 35 Sundbyberg Stockholm Sweden	100% of the issued share capital of the Company is held by CyanConnode Holdings plc - The company is incorporated in Sweden and has an accounting period ending 31 March - The principal activity of the Company is to act as a holding company
Connode AB Jarnvagsgatan 10 172 35 Sundbyberg Stockholm Sweden	100% of the issued share capital of the Company is held by Connode Holding AB - The company is incorporated in Sweden 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 the Nordic region

20. Fixed asset investments

	2020 £000	2018 £000
Bank securities	93	44

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

21. Inventories

	2020 £000	2018 £000
Raw materials	298	219
Raw materials - provision	(147)	(104)
Raw materials - net realisable value	151	115
Finished goods - cost	701	801
Finished goods - provision	(544)	(597)
Finished goods - net realisable value	157	204
Inventories	308	319

Inventories are stated after provisions for impairment of £691,000 (2018: £687,000). £4,000 (2018: £578,000) of stock impairment charges were recognised in the period.

The Company held no inventories at either balance sheet date.

22. Trade and other receivables

	Group		Company	
	2020 £000	2018 £000	2020 £000	2018 £000
Trade receivables: amount receivable for the sale of goods and services	2,717	3,408	-	-
Allowance for expected credit losses	(82)	(64)	-	-
R&D tax credit receivable	795	822	-	-
Contract assets	63	246	-	-
Other debtors	73	176	9	138
Employee Benefit Trust Loan	-	-	166	890
Prepayments	110	239	54	95
Loans to other group entities	-	-	1,062	2,603
Trade and other receivables	3,676	4,827	1,291	3,726

CyanConnode Ltd has a loan of £57,245,613 with CyanConnode Holdings plc with a current impairment provision of £56,727,452 (2018: £51,913,455).

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.

Loans to other group entities relates to amounts owed to CyanConnode Holdings plc by Connode Holding AB. This is considered recoverable because the majority (£1,835,000) was paid within 2019. This intercompany loan is unsecured and will be settled in cash. No guarantees have been given or received. The parent company also has

amounts receivable of £57,245,613 from CyanConnode Limited. There is a current impairment provision of £56,727,452 against this loan. For more information on loans to other group entities please see note 36.

Expected credit losses

The movement in the expected credit loss provision in the year was as follows:

	Group 2020 £000	Group 2018 £000
As at 1 January	(64)	-
Adoption of IFRS9	-	(26)
Charge in the year	(18)	(38)
As at 31 March	(82)	(64)

Credit risk

At 31 March 2020 the Group had significant concentration of credit risk in two customers which represented 71% (2018: two customers 78%) of the Group's trade receivables. This reliance on two customers in the Indian smart electricity metering sector is included within our principal risks statement on pages 11 - 14 of this report.

Trade receivables	2020 £000	2018 £000
Not yet due	521	2,121
30 - 59 days	10	204
60 - 89 days	1,528	439
Over 90 days	658	644
Total	2,717	3,408

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 Group 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 Group to the counterparty.

23. Cash and cash equivalents

	Group		Company	
	2020 £000	2018 £000	2020 £000	2018 £000
Cash and cash equivalents	1,172	4,564	551	4,210

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.

24. Trade and other payables

	Group		Company	
	2020 £000	2018 £000	2020 £000	2018 £000
Trade payables	171	935	32	94
Other payables	36	292	6	5
Accruals and deferred income	477	388	81	97
Social security and other taxes	138	365	-	-
Contract liabilities	669	14	-	-
	1,491	1,994	119	196

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs all of which are payable within a year.

The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit timeframes. Neither the Group nor the Company has incurred interest charges for late payment of invoices during the year (2018: £nil). The average credit period taken for trade purchases is 20 days (2018: 68 days) due to significant purchases of meters for smart metering deployments in December 2018. The average credit period taken in 2020 for trade purchases by the Company was 34 days (2018: 32 days).

Trade payables	2020 £000	2018 £000
Not yet due	59	418
30 - 59 days	14	469
60 - 89 days	65	2
Over 90 days	33	46
Total	171	935

The directors consider that the carrying amount of trade payables approximates to their fair value. Included in accruals is an amount of £61,474 relating to contributions to the Group's defined contribution pension plan (2018: £109,569).

25. Short-term borrowings

Advance on R&D tax credit

	Group 2020 £000	Company 2020 £000
As at 1 January 2019	-	-
Loans during the period	560	560
As at 31 March 2020	560	560

In February 2020 the Company received an advance loan for £560,000 against its R&D tax credit. This loan will be repaid to the lender out of the funds received from HMRC for the Group's R&D tax credit, details of which can be found in note 12 to these financial statements. These funds are expected to be received from HMRC by October 2020. The loan is secured against the R&D tax credit, and bears an interest rate of 13.2% per annum.

26. 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.

	2020 £000	2018 £000
At 1 January	690	858
Movement during the period (note 12)	222	(168)
At 31 March	912	690

	2020 £000	2018 £000
Intangibles deferred tax	932	1,111
Deferred tax asset - Swedish losses	(20)	(421)
Total recognised deferred tax liability	912	690

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Unrecognised deferred tax asset

	2020 £000	2018 £000
Accelerated capital allowances	(2)	(1)
Short term timing differences	(5)	(1)
Losses	(7,457)	(6,224)
Total unrecognised deferred tax asset	(7,464)	(6,226)

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

27. Share capital

Issued and fully paid, ordinary shares of 2.0 pence each	No	£'000
As at 31 December 2017	127,933,196	2,559
Issue of new shares	54,465,327	1,089
As at 31 December 2018	182,398,523	3,648
Issue of new shares	400,000	8
As at 31 March 2020	182,798,523	5,656

In the year, shares were issued at prevailing market prices as settlement for professional services provided. £40,000 was raised this way during the period (2018: £85,000).

No shares were issued as a result of the exercise of share options (2018: none). The Company has one class of ordinary share which carries no right to fixed income.

28. Share premium account

Amount subscribed for share capital in excess of nominal value.

29. Own shares held

	Group £000	Company £000
Balance at 31 December 2018 and 31 March 2020 (9,467,256 ordinary shares of 2.0 pence per share)	(3,253)	-

Own shares held are those issued to the Employee Benefit Trust.

30. Share option reserve

Represents the accumulated balance of share-based payment charges recognised in respect of share options granted by the Company less transfers to accumulated deficit in respect of options exercised or cancelled/lapsed.

31. Translation reserve

The translation reserve records the cumulative exchange differences arising from the translation of the financial statements of overseas subsidiaries

32. Retained losses

Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income.

33. Reconciliation of operating loss to net cashflow from operating activities

Group	2020 £000	2018 £000
Operating loss for the period:	(6,230)	(6,320)
Adjustments for:		
Depreciation of property, plant and equipment	247	51
Amortisation of Intangible assets	526	421
Foreign exchange	59	55
Share-option payment expense	267	445
Operating cash flows before movements in working capital	(5,131)	(5,348)
Decrease in inventories	11	809
Decrease/(increase) in receivables	1,124	(2,377)
Decrease in payables	(503)	(253)
Cash reduction from operating activities	(4,499)	(7,169)
Income taxes received	822	1,326
Net cash outflow from operating activities	(3,677)	(5,843)

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.

34. Share based payments**Equity-settled share options scheme**

The Company has a share option scheme for all employees of the Group. EMI and unapproved options are exercisable at a price equal to, or at a premium to, the average quoted market price of all the Company's shares on the date of grant. The vesting period is typically 3-4 years and the options have a life of 10 years. If the options remain unexercised after the period of 10 years from the date of grant, they will expire. Options are forfeited if the employee leaves the Group before they vest.

The Company also has a Joint Share Ownership Plan ("JSOP") under which shares are granted to certain directors and senior employees of the Company. Shares issued under the JSOP are issued at a premium to the quoted market price at the time of issue. They typically have vesting periods up to 3 years and a life of 5 years. Further information on shares issued under the JSOP can be found in the Directors' Remuneration Report on page 28.

Details of the share options outstanding during the period were as follows:

	2020		2018	
	Number of share options	Weighted average Exercise price (in £)	Number of share options	Weighted average Exercise price (in £)
Outstanding at beginning of period	21,357,791	0.33	20,318,732	0.38
Granted during period	3,096,035	0.12	4,590,830	0.19
Forfeited during period	(3,440,312)	0.46	(3,551,771)	0.41
Outstanding at the end of the period	21,013,514	0.35	21,357,791	0.33
Exercisable at the end of the period	11,998,392	0.57	2,222,530	0.70

The options outstanding at 31 March 2020 had a weighted average exercise price of £0.37 (2018: £0.33) and a weighted average remaining contractual life of 77 months (2018: 76 months).

In the period to 31 March 2020, options were granted on 4 April 2019. The aggregate of the estimated fair values of those options is £32,155.

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 £329,884.

A share option charge of £267,000 (2018: £445,000) was recognised during the period.

The inputs into the Black-Scholes model for options granted during the period (EMI, unapproved and JSOP shares) are as follows:

	2020	2018
Weighted average share price	6.45p	10.83p
Weighted average exercise price	12.00p	19.00p
Expected volatility	66%	65%
Expected life	4 years	4 years
Risk free rate	0.5%	0.5%
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.

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 period are the same for 2020 as for 2018:

	2020		2018	
	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	341,605	0.54
Granted during period	-	-	-	-
Forfeited during period	-	-	-	-
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	341,605	0.54

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

Weighted average share price	32.78p
Weighted average exercise price	54.0p
Expected volatility	65%
Expected life	10 years
Risk free rate	0.5%
Expected dividend yield	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.

35. 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:

As at end of period	Mar 2020		Dec 2018	
	Group £000	Company £000	Group £000	Company £000
Financial assets				
Classified as amortised cost				
Trade receivables	2,635	-	3,344	-
Intercompany receivables	-	1,062	-	2,603
Other debtors	73	-	110	110
Contract assets	63	-	246	-
Cash and cash equivalents	1,172	551	4,564	4,210
Total financial assets	3,943	1,613	8,264	6,923
Financial liabilities				
Classified as amortised cost				
Trade payables	171	32	935	94
Other payables	36	59	292	5
Short-term borrowings	560	560	-	-
Lease liabilities	274	-	-	-
Contract liabilities	669	-	14	-
Total financial liabilities	1,710	651	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 Group's credit risk is primarily attributable to its trade receivables and cash, the credit risk on other classes of financial asset is insignificant. The Group'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 Group's credit risk was therefore primarily attributable to its trade receivables. Note 22 provides further details regarding the recovery of trade receivables.

The Company has made a provision against the amount of the debt owed to it by its subsidiary company CyanConnode Limited totalling £56,727,452 (2018: £51,913,455). In addition, the Company has made a total provision of £3,086,728 (2018: £2,363,000) against the debt owed to it by CyanConnode Employees Benefit Trust which is held with Zedra and relates to the loan for the EBT shares, to bring the loan in line with market value of the shares held in the Trust. These amounts are not overdue. The EBT loan is a five-year agreement from October 2017. 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 33 of this report.

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.

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 March 2020 exchange rate.

	INR £000	SEK £000
Fixed assets	13	1,096
Current assets	2,791	282
Current liabilities	(734)	(82)
Net assets	2,069	1,296

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.

Period ended	Mar 2020 £000	Dec 2018 £000
Indian Rupee	230	224
Swedish Krona	144	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.

Period ended	Mar 2020 £000	Dec 2018 £000
Indian Rupee	(188)	(183)
Swedish Krona	(118)	(189)

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.

36. Related Party Transactions*Investments by parent company*

Included in the investment in subsidiaries figure (Note 20) of £9,105,000 is an amount of £2,000 (2018: £2,000) relating to the investment held by CyanConnode Holdings plc in CyanConnode Limited.

During the period ended 31 March 2020 an investment of £940,000 (2018: £401,000) was made by CyanConnode Holdings Plc in CyanConnode Private Limited.

The remaining amount is a capital contribution amounting to £267,000 (2018: £445,000), which relates to the share compensation charge in respect of share options granted in the Company on behalf of employees in CyanConnode Limited and CyanConnode Pvt Limited.

Board members

Please refer to page 25 of the Corporate Governance Statement for a full list of directors who served in the period. During the period, no newly issued shares were purchased by the Directors of the Company (2018: 8,800,000 shares for £880,000).

During the period, the Company paid fees of £205,000 (2018: £244,000) in respect of services provided by directors. Please see page 27 for the Directors' Remuneration Report for further information.

Sweden Hans-Erik Wikman is a director of Connode AB and Connode Holding AB. He is also CFO, Board Director and shareholder of Trittech. Trittech sold the Connode Group to the Company in late 2016. Trittech have continued to provide bookkeeping and company secretarial support for the Connode group of companies. In 2019, revenue of £45,000 (2018: £42,000) and costs of £61,000 (2018: £103,000) were recognised in relation to Trittech.

Transactions between parent company and subsidiaries

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

	Connode Holding AB £000	CyanConnode Limited £000	CyanConnode Pvt Limited £000
<i>Loans to related parties</i>			
Balance as at 31 December 2018	2,599	51,913	4
Cash advances/(repayments)	(1,835)	4,823	-
Impairment provision b/f	-	(51,913)	-
Impairment provision	-	(4,814)	-
Interest on loan balance	-	-	-
Loss on revaluation	(225)	-	-
Management fee	-	510	-
Balance as at 31 March 2020	539	519	4

CyanConnode Holdings plc makes a management charge for services rendered to CyanConnode Limited. In the period to 31 March 2020 these amounted to £510,000 (2018: £375,000).

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