Open Cloud Limited
Group annual report for the year ended 31 December 2016

Registered Number. 06000941





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Open Cloud Limited

Group annual report for the year ended 31 December 2016

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Open Cloud Limited

Directors and advisors for the year ended 31 December 2016

Directors
Mr D Brooker
Mr G MacArthur

Company secretary and registered office
Versec Secretaries Limited (appointed 10 February 2017)

100 Church Street
Enfield
EN2 6BQ, United Kingdom

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Abacus House
Castle Park
Cambridge
CB3 0AN

Bankers

Clydesdale Bank PLC
1st Floor
20 Merrion Way
Leeds
LS2 8NZ

HSBC
Vitrum
St John's Innovation Park
Cambridge
CB4 0WS

Open Cloud Limited

Strategic Report for the year ended 31 December 2016

During this financial year, the Group has continued the development of its core Rhino platform as well as its Service Interaction Server, VoLTE and Sentinel product lines.

Subsequent to the balance sheet date, the Group was acquired by Metaswitch Networks Ltd ("Metaswitch") on 10 February 2017. The Directors see this acquisition as significant opportunity for the Group's operations going forwards, as the cross-selling potential with being a member of a much larger Group are likely to lead to faster growth for the business. It is thought that the Group's product suites will complement the existing technology of Metaswitch, and their customer base.

Review of the business

Group turnover for the year was £9.9m (2015: £10.6m), a decrease of 6% on the prior year. Despite this decrease, the Group's operating loss was only £0.1m lower than the prior year, at £0.3m (2015: £0.4m). This was achieved by the control of operating costs which decreased by £0.7m to £7.4m (2015: £8.1m), with part of the reduction due to favourable changes to foreign exchange currency rates.

The 12 month rolling sales pipeline increased by 7% to £49.0m (2015: £46.0m). The Group will continue to invest in R&D and its sales channels to drive revenue growth and, following the acquisition by Metaswitch, expects to report an operating profit for the year ended 31 December 2017.

The Group has net liabilities of £7.8m (2015: £4.8m net liabilities) as at the balance sheet date, with the increase due to the retained loss after tax for the year of £2.8m (2015: £2.1m loss). The Group's cash position is £1.4m (2015: £2.2m) as a result of reduced revenues. The Group's days of sales remained consistent with the prior year at 51 days (2015: 51 days).

On 28 October 2016 the Company concluded new financing facility with Clydesdale Bank Plc and extended the repayment date of the Subordinated Secured Fixed Rate Loan Notes. As noted above, the Group was acquired by Metaswitch on 10 February 2017. Immediately prior to the acquisition, all bank borrowings were repaid in full and the Subordinated Secured Fixed Rate Loan Notes were forgiven, replaced by the deferred consideration payable by Metaswitch on the one year anniversary of the acquisition. Thus the Group no longer has any external, third party debt.

Principal risks and uncertainties

There are a number of principal risks and uncertainties which could have a material impact on the Group's long term performance and could cause results to differ materially from expected and historical results. These include, but are not limited to, the following:

- Technology – the market for communications software and services is characterised by rapid technological advances, frequent introductions of new products, evolving industry standards and recurring or unanticipated changes in customer requirements;

- Competition – the Group operates in a highly competitive market with significant product innovations so we are subject to the threat of our customers developing new products in our markets before we make corresponding updates and developments to our own product range; and

- Financial – the Group has significant revenue in Euro and is therefore exposed to movements in exchange rates, given the majority of the Group's expenditure is in GBP, and therefore no natural hedge exists. Following the decision by the UK to leave the European Union, the Directors are currently considering the impact on the Group's operations.

On behalf of the Board



Mr D Brooker
Director

28 September 2017

Open Cloud Limited

Directors' report for the year ended 31 December 2016

Registered number
The Company's registered number is 06000941.

Directors
The directors that have served during the year and up to the date these financial statements are approved were:

Mr D Brooker (appointed 10 February 2017)
Mr G MacArthur (appointed 10 February 2017)
Mr P Baines (resigned 10 February 2017)
Mr R Duckworth (resigned 10 February 2017)
Mr J Gordon (resigned 30 June 2016)
Mr D Long (resigned 10 February 2017)

Mr P Green resigned as the Company Secretary on 10 February 2017.

Results and dividends
The Group's loss for the financial year is £2.8m (2015: £2.1m loss), which will be added to the deficit profit and loss reserve. The directors do not recommend the payment of a dividend for the year (2015: £nil).

Financial Risk Management and mitigation
The Group's activities expose it to currency risk, credit risk, interest rate risk and liquidity risk. The Group manages these risks as follows:

Currency Risk
The Group operates in a number of overseas territories and in different currencies in each territory. As far as possible the Group attempts to match currencies for receiving funds with those of principal expenditures, and holds cash in currencies required to meet expenditure in those currencies. Due to the unpredictable nature of sales receipts it is not possible to accurately hedge future cash flows and the Group therefore does not engage in currency hedging transactions.

Credit risk
The company has implemented policies that require appropriate credit checks on potential third party customers. Most customers are Tier 1 or 2 telco operators, or large firms involved in the telecommunications industry and the level of credit risk is assessed as very low. The company's principle cash deposits are current account balances with Clydesdale Bank PLC and, as such, are not considered to be at significant risk.

Interest rate risk
The company has entered into an interest rate capping agreement in connection with the £3M term loan drawn down in October 2013 – the variable, LIBOR related, element of interest applying to this loan is capped at a rate of 1%, from 30 December 2013 until the final repayment date, which was on 10 February 2017 following the Metaswitch acquisition.

Price, liquidity and cash flow risks
Pricing of products is determined by reference to competitive conditions, market factors and the territories in which the product is being sold, and is often modified for particular projects. These market factors include inflation, and local market and economic conditions within each country. The company's cash flow and liquidity are largely dependent on its future operating profitability, which the Directors consider to be satisfactory, and also on the management of working capital within the business and the Directors are confident that this will be satisfactorily managed.

Open Cloud Limited

Directors' report for the year ended 31 December 2016 (continued)

Going concern
The Board of Directors believe the Group to be a going concern for the foreseeable future.

Following the acquisition of the Group by Metaswitch Networks Ltd, the Group no longer has any external third party debt and is expected to generate sufficient cash inflows over the next 12 months in order to meet its financial obligations.

Directors' and officers' liability insurance
Insurance cover is in force, and was for the whole of the financial year, and for the period up until the date of approval of the financial statements, in respect of the personal liabilities which may be incurred by directors and officers of the Group in the course of their service with the Group. This policy falls within the definition of a qualifying third party indemnity policy.

Provision of information to auditors
In the case of each of the persons who is a director at the date of approval of this report the following applies:

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

On behalf of the Board

Mr D Brooker
Director

28 September 2017

Open Cloud Limited

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose 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.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Mr D Brooker
Director

28 September 2017

Independent auditors' report to the members of Open Cloud Limited

Report on the financial statements

Our opinion

In our opinion, Open Cloud Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Group annual report (the "Annual Report"), comprise:

- the group and company balance sheets as at 31 December 2016;
- the group profit and loss account and group statement of comprehensive income for the year then ended;
- the group and company cash flow statements for the year then ended;
- the group and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Open Cloud Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Martha Cannon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
28 September 2017

Open Cloud Limited

Group profit and loss account for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Turnover	5	**9,903,768**	10,562,094
Cost of sales		**(2,799,617)**	(2,768,390)
Gross profit		**7,104,151**	7,793,704
Research and development expenses		**(2,391,849)**	(2,226,309)
Sales and marketing costs		**(3,048,721)**	(3,301,667)
Administrative expenses		**(1,964,923)**	(2,624,992)
Other operating income		**-**	4,142
Operating loss	6	**(301,342)**	(355,122)
Interest receivable and similar income	9	**255**	11,482
Interest payable and similar charges	9	**(2,343,382)**	(1,703,954)
Net Interest Expense		**(2,343,127)**	(1,692,472)
Loss before taxation		**(2,644,469)**	(2,047,594)
Tax on loss	10	**(114,551)**	(92,257)
Loss for the financial year		**(2,759,020)**	(2,139,851)

The results above are wholly derived from continuing operations.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Company profit and loss account.

Open Cloud Limited

Group statement of comprehensive income for the year ended 31 December 2016

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Loss for the financial year	**(2,759,020)**	**(2,139,851)**
Exchange differences on translation of foreign operations	(237,704)	298,734
Total comprehensive loss for the year	**(2,996,724)**	**(1,841,117)**

Open Cloud Limited

Group balance sheet as at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Tangible assets	11	**62,681**	79,538
		62,681	79,538
Current assets			
Debtors	12	**4,321,456**	3,762,527
Cash and cash equivalents		**1,398,253**	2,196,520
		5,719,709	5,959,047
Creditors: amounts falling due within one year	14	**(5,245,322)**	(10,449,273)
Net current Assets/(liabilities)		**474,387**	(4,490,226)
Total assets less current liabilities		**537,068**	(4,410,688)
Creditors: amounts falling due after more than one year	15	**(8,331,826)**	(388,107)
Net liabilities		**(7,794,758)**	(4,798,795)
Capital and reserves			
Called up share capital	19	**343,640**	343,369
Share premium account		**13,260,114**	13,259,624
Other reserves		**2,345,888**	2,345,888
Accumulated losses		**(23,744,400)**	(20,747,676)
Total shareholders' deficit	21	**(7,794,758)**	(4,798,795)

The financial statements on pages 11 to 42 were approved by the Board on 28 September 2017 and were signed on its behalf by:



Mr D Brooker
Director
Registered Number: 06000941

Open Cloud Limited

Company balance sheet as at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Tangible assets	11	**30,422**	59,843
Investments	13	**759,832**	759,832
		790,254	819,675
Current assets			
Debtors	12	**4,844,387**	4,571,433
Cash and cash equivalents		**917,487**	1,763,819
		5,761,874	6,335,252
Creditors: amounts falling due within one year	14	**(4,480,245)**	(9,949,313)
Net current assets/(liabilities)		**1,281,629**	(3,614,061)
Total assets less current liabilities		**2,071,883**	(2,794,386)
Creditors: amounts falling due after more than one year	15	**(8,331,826)**	(388,107)
Net liabilities		**(6,259,943)**	(3,182,493)
Capital and reserves			
Called up share capital	19	**343,640**	343,369
Share premium account		**13,260,114**	13,259,624
Accumulated prior losses		**(16,785,486)**	(13,472,753)
Current year loss		**(3,078,211)**	(3,312,733)
Total shareholders' deficit		**(6,259,943)**	(3,182,493)

The loss for the Company for the financial year amounted to £3,078,211 (2015: £3,312,733 loss). As permitted by section 408 of the Companies Act 2006, the Parent Company's Income Statement prepared under FRS 102 has not been included in these financial statements.

The notes on pages 19 to 42 are an integral part of these financial statements

The financial statements on pages 11 to 42 were approved by the Board on 28 September 2017 and were signed on its behalf by:

Mr D Brooker
Director
Registered Number: 06000941

Open Cloud Limited

Group statement of changes in equity for the year ended 31 December 2016

	Called up share capital £	Share premium £	Other reserves £	Accumulated losses £	Total shareholder's deficit £
At 1 January 2015	**338,720**	**13,251,256**	**2,345,888**	**(18,909,123)**	**(2,973,259)**
Loss for the financial year	-	-	-	(2,139,851)	(2,139,851)
Other comprehensive income for the year	-	-	-	298,734	298,734
Shares issued in the year (net of £nil expenses)	4,649	8,368	-	-	13,017
Share based payment expenses	-	-	-	2,564	2,564
At 1 January 2016	**343,369**	**13,259,624**	**2,345,888**	**(20,747,676)**	**(4,798,795)**
Loss for the financial year	-	-	-	(2,759,020)	**(2,759,020)**
Other comprehensive income for the year	-	-	-	(237,704)	**(237,704)**
Shares issued in the year (net of £nil expenses)	271	490	-	-	**761**
At 31 December 2016	**343,640**	**13,260,114**	**2,345,888**	**(23,744,400)**	**(7,794,758)**

Other reserves represent the difference between the value at which the Company carries its investment in Open Cloud NZ Limited and the aggregate of the nominal value of Open Cloud NZ Limited's share capital plus share premium account.

Open Cloud Limited

Company statement of changes in equity for the year ended 31 December 2016

Company	Called up share capital	Share premium account	Accumulated losses	Total shareholders' deficit
		£	£	£
At 1 January 2015	**338,720**	**13,251,256**	**(13,475,317)**	**114,659**
Loss for the financial year	-	-	(3,312,733)	(3,312,733)
Shares issued in the year (net of £nil expenses)	4,649	8,368	-	13,017
Share based payment expenses	-	-	2,564	2,564
At 31 December 2015	**343,369**	**13,259,624**	**(16,785,486)**	**(3,182,493)**
Loss for the financial year	-		(3,078,211)	**(3,078,211)**
Premium on shares issued in the year (net of £nil expenses)	271	490	-	**761**
At 31 December 2016	**343,640**	**13,260,114**	**(19,863,697)**	**(6,259,943)**

Open Cloud Limited

Group Cash Flow Statement for the year ended 31 December 2016

	Note	2016	2015
		£	£
Net cash (outflow)/inflow from operating activities	**20**	**(192,283)**	902,472
Interest paid		**(456,273)**	(195,077)
Interest receivable		**255**	82
Taxation paid		**(2,276)**	(1,043)
Net cash generated from operating activities		**(650,577)**	706,434
Cash flow from investing activities			
Purchase of tangible assets		**(31,522)**	(22,457)
Net cash used in investing activities		**(31,522)**	(22,457)
Cash flow from financing activities			
Repayment of loan	**16**	**(1,950,000)**	(600,000)
New loan issued	**16**	**1,670,000**	-
Issue of ordinary share capital		**761**	13,017
Net cash used in financing activities		**(279,239)**	(586,983)
Net (decrease)/increase in cash and cash equivalents		**(961,338)**	96,994
Cash and cash equivalents at the beginning of the year		**2,196,520**	1,954,338
Exchange gains on cash and cash equivalents		**163,017**	145,188
Cash and cash equivalents at the end of the year		**1,398,253**	2,196,520
Cash and cash equivalents consists of:			
Cash in bank and in hand		**1,398,253**	**2,196,520**
Cash and cash equivalents		**1,398,253**	**2,196,520**

Open Cloud Limited

Company Cash Flow Statement for the year ended 31 December 2016

	Note	2016	2015
		£	£
Net cash (outflow)/inflow from operating activities	**20**	**(170,172)**	924,012
Interest paid		**(456,273)**	(195,077)
Interest receivable		**255**	-
Net cash generated from operating activities		**(626,190)**	728,935
Cash flow from investing activities			
Investment in Brazilian subsidiary		**-**	(26,367)
Purchase of tangible assets		**(12,805)**	(19,469)
Net cash used in investing activities		**(12,805)**	(45,836)
Cash flow from Financing activities			
Repayment of loan	**16**	**(1,950,000)**	(600,000)
New loan issued	**16**	**1,670,000**	-
Issue of ordinary share capital		**761**	13,017
Net cash used in financing activities		**(279,239)**	(586,983)
Net (decrease)/increase in cash and cash equivalents		**(918,234)**	96,116
Cash and cash equivalents at the beginning of the year		**1,763,819**	1,593,038
Exchange gains on cash and cash equivalents		**71,902**	74,665
Cash and cash equivalents at the end of the year		**917,487**	1,763,819
Cash and cash equivalents consists of:			
Cash in bank and in hand		**917,487**	1,763,819
Cash and cash equivalents		**917,487**	1,763,819

1) General information

Open Cloud Limited ('the Company') and its subsidiaries (together "the Group") operate from several offices based in the UK, Spain, New Zealand and Indonesia. The Group operates within the telecommunications industry selling licences to telecom operators for use of the Group's intellectual property as well as selling related professional services and product support and maintenance. The financial statements were authorised for issue on 28 September 2017 by Mr D Brooker.

The company is a private company limited by shares and is incorporated in United Kingdom. The address of its registered office is 100 Church Street, Enfield, Middlesex, EN2 6BQ.

2) Statement of compliance

The Group and individual financial statements of Open Cloud Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these group and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These Group and company financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4. The Company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

(b) Going concern

During the year, and prior to the acquisition of the Group by Metaswitch Networks Ltd (see note 24), the Group met its day-to-day working capital requirements through its bank facilities. Following the acquisition, the parent company of the Group provides working capital funding as and when required by the Group. The current economic conditions continue to create uncertainty over the level of demand for the Group's products. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to generate sufficient cash inflows to meet it's financial obligations. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements

3) Summary of significant accounting policies (continued)

(c) Basis of consolidation

The Group Financial statements include the financial statements of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns less than 50% of the voting powers of an entity but controls the entity by virtue of an agreement with other investors which give it control of the financial and operating policies of the entity it accounts for that entity as a subsidiary. Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the group financial statements.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with associates to the extent of the Group's interest in the entity.

(d) Foreign currency

(i) Functional and presentation currency
The Group financial statements are presented in pound sterling The Company's functional and presentation currency is the pound sterling.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each year end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance (expense)/ income'. All other foreign exchange gains and losses are presented in the profit and loss account within 'Other operating (losses)/gains'.

(iii) Translation
The trading results of Group undertakings are translated into sterling at the average exchange rates for each month. The assets and liabilities of overseas undertakings are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised in 'Other comprehensive income' and allocated to non-controlling interest as appropriate.

3) Summary of significant accounting policies (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the Group and value added taxes.

The Group recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Group retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the Group's sales channels have been met, as described below.

(i) Professional services
Revenue is recognised in the accounting period in which the services are rendered when the outcome of contract can be estimated reliably. The company uses the percentage of completion method based on the actual service performed as a percentage of the total services to be provided.

ii) Licence sales
Licence revenue is generally realised upon delivery of the licence to customer. In the case of some on-going projects licence revenue is recognised based on the percentage completion method above.

iii) Support and maintenance
Support revenue is realised on a straight line basis over the period of the support specified in the purchase order received from the customer.

(f) Employee benefits

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and pension plan contributions.

(i) Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the year in which the service is received.

(ii) Pension contribution
The Group contributes up to 5% of an employee's salary in to the employee's pension scheme. These contributions were recognised in profit and loss in the year.

(iii) Annual bonus plan
The Group operates a number of annual bonus plans for employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plans

3) Summary of significant accounting policies (continued)

(f) Employment benefits (continued)

(iv) Share-based payments
The Group provides share-based payment arrangements to certain employees. Equity-settled arrangements are measured at fair value (excluding the effect on nonmarket based vesting conditions) at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period.

The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest. Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment.

(g) Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Currently the Group does not recognise any deferred tax assets.

(iii) Withholding tax

Withholding tax arises in certain territories on invoices issued to and from the UK. The tax is deducted from the payment and paid instead to the government.

3) Summary of significant accounting policies (continued)

(h) Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Depreciation
Depreciation of tangible fixed assets is charged so as to write off the cost of assets over their estimated useful economic lives and is calculated on the following basis:

(i) Leasehold improvements, office and computer equipment, and computer software are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Depreciation is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Computer equipment	3 years	Straight Line
Computer software	3 years	Straight Line
Office equipment	5 years	Straight Line
Leasehold improvements	12 years	Straight Line

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(iii) De-recognition
Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

(i) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred

(j) Leased assets

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

3) Summary of significant accounting policies (continued)

(k) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Goodwill is allocated on acquisition to the cash generating unit expected to benefit from the synergies of the combination. Goodwill is included in the carrying value of cash generating units for impairment testing.

(l) Investments – Company

Investments in subsidiaries are stated at cost less provision for any impairment. The cost of an acquisition is measured as the fair value of the equity instruments issued at the date of the exchange, plus costs directly attributable to the acquisition. The Company assesses at each balance sheet date whether there is objective evidence that an investment in a subsidiary is impaired.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

3) Summary of significant accounting policies (continued)

(n) Provisions and contingencies

(i) Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small. In particular:

(ii) Provision is not made for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

(o) Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets
Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

3 Summary of significant accounting policies (continued)

ii) Financial liabilities
Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires

iii) Compound financial instruments
Compound financial instruments issued by the Group comprise convertible loan notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

iv) Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3) Summary of significant accounting policies (continued)

(p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Distributions to equity holders

Dividends and other distributions to the Group's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

(r) Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

4) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Critical judgements in applying the Group's accounting policies*
The Group controls the subsidiaries outright as the Group holds 100% of the voting rights of the subsidiaries.

(b) Key accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Useful economic lives of tangible assets
The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property plant and equipment, and note 3(h) for the useful economic lives for each class of assets.

(ii) Impairment of debtors
The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the aging profile of debtors and historical experience. See note 12 for the net carrying amount of the debtors.

(iii) Research and development expenditure
All research and development expenditure is written off to the profit and loss account in the period in which it is incurred.

4) Critical accounting judgements and estimation uncertainty (continued)

(b) Key accounting estimates and assumptions (continued)

(iv) Stage of completion on customer contracts
The company uses timesheet analysis to determine the revenue recognition on standalone professional services contracts, and also contracts whereby the software and associated professional services work is bundled and recognised over time. Such revenue is recognised on a stage of completion with a small percentage held back for any additional work that is carried out after completion but before deployment.

5) Turnover

Turnover represents amounts derived from the provision of services which fall within the Group's ordinary activities after deduction of discounts and value added tax.

The turnover is attributable to the Group's principle activity and 86% (2015: 87%) of the turnover relates to sales made outside the United Kingdom.

By category	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Licence	**3,757,040**	4,640,061
Professional Service	**2,820,426**	2,966,874
Support	**3,293,642**	2,793,030
Training	**32,660**	162,129
Total	**9,903,768**	10,562,094

By geographical market	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
UK	**1,405,326**	1,356,162
Continental Europe	**6,246,774**	7,295,029
Americas	**29,573**	77,757
Asia Pacific	**2,222,095**	1,833,146
Total	**9,903,768**	10,562,094

6) Operating loss

Operating loss for the Group is stated after charging:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Depreciation on tangible fixed assets (owned)	**53,662**	63,262
Operating lease charges - rent	**239,479**	230,712
Services provided by the Company's auditors		
Fees payable to company's auditors for the audit of parent company and group financial statements	**40,644**	33,181
Fees payable to the company's auditors and its associates for other services:		
The audit of company's subsidiaries	**19,203**	16,347
Tax compliance services - parent company	**77,280**	16,942
Tax compliance services - subsidiaries	**14,340**	17,201

7) Employees and directors

Staff costs for the group during the year (group)	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Wages and salaries	**4,157,850**	3,919,943
Social security costs	**259,837**	284,379
Other pension costs	**167,004**	174,633
Total	**4,584,691**	4,378,955

Average monthly number of employees (group)	Year ended 31 December 2016	Year ended 31 December 2015
By Department	Number	Number
Admin and Finance	**12**	12
Marketing	**2**	3
Professional Services	**28**	30
R&D	**27**	28
Sales	**15**	14
Total	**84**	87

7) Employees and directors (continued)

Group Directors' emoluments	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Aggregate emoluments	**460,744**	293,384
Directors exercising share options	-	1

There are no pension benefits provided to Directors.

Company Directors' emoluments	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Aggregate emoluments	**341,475**	201,736
Directors exercising share options	-	1

There are no pension benefits provided to Directors.

Highest paid director

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Aggregate emoluments	**201,563**	201,736

The highest paid director exercised nil ordinary shares in 2016 (2015 – nil)

The company disclosure for highest paid director is the same as that of the Group.

8) Share-based payments

The Company has a share option scheme in operation whereby options over shares in the Company can be granted to employees and directors of the Group.

The options granted vest one quarter on the anniversary of the date of grant with the remaining options vesting on a straight line basis over the next 12 quarters so that all options have vested after 4 years from the grant date. For some directors and senior employees, all options will vest over 4 years although the proportion that vests in each year varies according to the terms of the employment agreement. Options expire ten years from date of grant. The options generally have no performance conditions attached. The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions for each grant during 2016 and 2015 were as follows:

Grant date	**2016**	**2015**
Share price at grant date	**£0.028**	£0.028
Exercise price	**£0.028**	£0.028
Number of employees	**10**	17
Shares under option	**64,000**	98,000
Vesting period (years)	**4**	4
Expected volatility	**50%**	50%
Expected life (years)	**5**	5
Risk free rate	**0.9%**	0.9%
Dividend yield	**-**	-
Fair value per option	**£0.0110**	£0.0110

A reconciliation of option movements over the year is shown below:

	2016		2015	
	Number of options	**Weighted-average exercise price £**	Number of Options	Weighted-average exercise price £
Outstanding at 1 January	**3,566,747**	**0.028**	3,933,655	0.028
Granted	**64,000**	**0.028**	98,000	0.028
Exercised	**(27,187)**	**0.028**	(464,908)	0.028
Forfeited or expired	**(1,165,112)**	**0.028**	-	-
Outstanding at 31 December 2016	**2,438,448**	**0.028**	3,566,747	0.028
Exercisable at 31 December 2016	**2,304,357**	**0.028**	3,302,248	0.028

27,187 (2015: 464,908) share options were exercised in the year. The share based payment charge for 2016 was £1,330 (2015: £2,564).

8) Share based payments (continued)

The following options over ordinary shares were in existence at 31 December 2016:

Exercise price	Number of options	Weighted-average exercise price £	Weighted-average remaining expected life Years	Weighted-average remaining contractual life Years
22p	-	0.22	-	-
2.8p	2,438,448	0.028	2.28	4.63
Total	2,438,448	0.028	2.28	4.63

The following options over ordinary shares were in existence at 31 December 2015:

Exercise price	Number of options	Weighted-average exercise price £	Weighted-average remaining expected life Years	Weighted-average remaining contractual life Years
22p	-	0.22	-	-
2.8p	3,566,747	0.028	2.12	5.63
Total	3,566,747	0.028	2.12	5.63

The Company disclosure for share based payments is the same as the Group's.

On the acquisition of the Company by Metaswitch Networks Limited (see note 24), all share options that were not exercised lapsed, and the Company no longer has a share option scheme in respect of options over shares in the Company.

9) Net interest expense

Group

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Interest payable on bank loans and overdrafts	**(286,711)**	(198,612)
Interest payable on other loans	**(2,056,671)**	(1,505,342)
Total interest payable and similar charges	**(2,343,382)**	(1,703,954)
Interest receivable and similar income	**255**	11,482
Net interest payable and similar charges	**(2,343,127)**	(1,692,472)

10) Tax on loss on ordinary activities

There is a £114,551 Group tax charge for the year (2015: £92,257). The Group and Company have £nil recognised deferred tax (2015: £nil).

The directors consider that it is more likely than not that there will not be sufficient taxable profits in the future such as to realise the deferred tax assets arising on the losses brought forward from previous years and accelerated capital allowances, and therefore an asset has not been recognised in these financial statements. The total amount of unrecognised undiscounted deferred tax asset relating to tax losses as at 31 December 2016 was £4,749,000 (2015 - £4,150,000) of which £3,973,000 (2015 - £3,318,000) relates to the Company.

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Current tax		
United Kingdom		
Corporation tax at 20% (2015: 20%):	-	-
Withholding written off	110,808	97,425
	110,808	97,425
Foreign tax		
Corporation taxes	**657**	1,043
Withholding tax	**(19,865)**	13,100
Other current tax	**1,911**	1,729
Adjustments in respect of prior years	**21,040**	(21,040)
Total current tax	**3,743**	(5,168)
Tax on loss on ordinary activities	**114,551**	92,257

The tax for the year is £114,551 (2015: £92,257) the standard effective rate of corporation tax in the UK for the year ended 31 December 2016 is 20% (2015: 20%). The differences are explained below:

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Loss on ordinary activities before taxation	**(2,644,469)**	(2,047,594)
Loss on ordinary activities multiplied by the standard rate of UK corporation tax at 20.0% (2015: 20%)	**(528,894)**	(409,519)
Effects of:		
Adjustment in respect of prior years	**21,040**	(21,040)
Withholding tax written off	**90,943**	98,468
Adjustment in respect of foreign tax rates	**2,568**	14,829
Utilisation of tax losses	**(196,266)**	-
Losses carried forward	**725,160**	409,519
Total tax charge	**114,551**	92,257

10) Tax on loss on ordinary activities

Factors affecting current and future tax charges
The changes to tax rates have had, and are expected to have, an immaterial effect on the financial statements.

11) Tangible assets

Group

	Leasehold improvements	Office equipment	Computer equipment	Computer software	Total
	£	£	£	£	£
Cost					
At 1 January 2016	32,358	41,035	452,316	89,233	614,942
Additions	-	450	31,072	-	31,522
Disposals	-	-	(18,053)	(1,401)	(19,454)
Exchange movement	5,114	208	58,115	3,563	67,000
At 31 December 2016	**37,472**	**41,693**	**523,450**	**91,395**	**694,010**
Accumulated depreciation					
At 1 January 2016	18,110	32,689	397,481	87,124	535,404
Charge for the year	3,176	5,631	42,746	2,109	53,662
Disposals	-	-	(18,053)	(1,401)	(19,454)
Exchange movement	3,286	(2,239)	57,109	3,561	61,717
At 31 December 2016	**24,572**	**36,081**	**479,283**	**91,393**	**631,329**
Net book amount					
At 31 December 2016	**12,900**	**5,612**	**44,167**	**2**	**62,681**
At 1 January 2016	**14,248**	**8,346**	**54,835**	**2,109**	**79,538**

11) Tangible assets (continued)

Company

	Leasehold improvements	Office equipment	Computer equipment	Computer software	Total
	£	£	£	£	£
Cost					
At 1 January 2016	8,643	40,072	188,678	72,101	309,494
Additions	-	450	12,355	-	12,805
Disposals	-	-	(18,053)	(1,401)	(19,454)
At 31 December 2016	8,643	40,522	182,980	70,700	302,845
Accumulated depreciation					
At 1 January 2016	3,900	31,326	144,433	69,992	249,651
Charge for the year	720	2,952	36,445	2,109	42,226
Disposals	-	-	(18,053)	(1,401)	(19,454)
At 31 December 2016	4,620	34,278	162,825	70,700	272,423
Net book amount					
At 31 December 2016	**4,023**	**6,244**	**20,155**	**-**	**30,422**
At 1 January 2016	4,743	8,746	44,245	2,109	59,843

12) Debtors

	Group 2016	Group 2015	Company 2016	Company 2015
	£	£	£	£
Trade debtors	**3,482,423**	2,443,920	**2,853,385**	2,274,106
Amounts owed by group undertakings	**-**	-	**1,492,663**	1,554,529
Other debtors	**19,186**	35,235	**41,168**	28,658
Prepayments and accrued income	**819,847**	1,283,372	**457,171**	714,140
	4,321,456	3,762,527	**4,844,387**	4,571,433

13) Investments

	Investments in subsidiary undertakings £
Cost and net book value	
At 1 January 2016	759,832
	-
At 31 December 2016	**759,832**

The directors believe that the book value of investments is supported by their trading prospects and/or underlying net assets.

The subsidiaries of the Company at 31 December 2016 were:

Name	Address of the registered office	Nature of business	Interest
Open Cloud UK Ltd	100 Church Street, Enfield, Middlesex, EN2 6BQ UNITED KINGDOM	IT/Telecoms	100%
Open Cloud (NZ) Limited	Level 5, Sovereign House, 34 Manners Street, PO Box 19210, Wellington 6149, NEW ZEALAND	IT/Telecoms	100%
Open Cloud Spain S.L	c/ Juan Bravo No 3-A 28006 Madrid SPAIN	IT/Telecoms	100%
PT Open Cloud Indonesia	PT Open Cloud Indonesia Menara Kadin Indonesia Level 30 Jalan H. R. Rasuna Said Kav.2-3 Block X-5 Kav. 2-3 12950 Jakarta INDONESIA	IT/Telecoms	99%
Open Cloud Japan Ltd.	8-1 Minami-Aoyama 7-chome Minato-ku Tokyo JAPAN	Dormant	100%
Open Cloud, Inc	350 Bay Street, #224 San Francisco CA 94113 USA	Dormant	100%
Open Cloud Brasil Servicos em Tecnologia da Informacao Ltda.	Na Av. Bernardino de Campos, 98 Sobreloja Sala 23 Paraiso CEP 04004-040	Dormant	99%

13) Investments (continued)

These subsidiaries only have ordinary share capital and are 100% owned by the Company, other than PT Open Cloud Indonesia and Open Cloud Brasil Servicos em Tecnologia da Informacao LTDA which are 99% owned by the Company and 1% owned by Open Cloud UK Limited. A provision has been made against the carrying value of the Brazilian subsidiary to recognise the likely diminishment of the capital investment. Also a provision was made to recognise likely position that the Brazilian subsidiary will remain unable to repay the loan to Open Cloud Limited for the foreseeable future.

14) Creditors: amounts falling due within one year

	Group 2016 £	Group 2015 £	**Company 2016** £	Company 2015 £
Bank loans and overdrafts (below and note 16)	**600,000**	6,936,610	**600,000**	6,936,610
Trade creditors	**359,998**	173,322	**314,964**	135,032
Taxation and social security	**115,397**	43,047	**129,905**	46,525
Other creditors	**-**	14,111	**-**	13,745
Accruals and deferred income	**4,169,927**	3,282,183	**3,435,376**	2,817,401
	5,245,322	10,449,273	**4,480,245**	9,949,313

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

Group and Company	**2016** £	**2015** £
Bank loans and overdrafts:		
Clydesdale Bank PLC	**920,000**	-
Subordinated secured fixed rate notes	**7,023,719**	-
Converted redeemable preference share of £0.35177	**388,107**	388,107
	8,331,826	388,107

16) Loans and other borrowings

Group and company	**2016** £	**2015** £
In one year or less, or on demand:	**600,000**	6,936,610
In more than one year, but not more than two years	**600,000**	-
In more than two years, but not more than five years	**7,731,826**	388,107
In more than five years (Non Instalment debts)	**-**	-
	8,931,826	7,324,717

On October 2016, the Company entered into an agreement with Clydesdale Bank PLC to provide a new £1,670,000 term loan and £1,500,000 invoice discounting facility for the period to 28 June 2019. This replaced the existing facilities.

16) Loans and other borrowings (continued)

Subordinated Secured Fixed Rate Notes carry an interest rate of 25% per annum and a redemption premium of 225%, both repayable on redemption. During the year, the redemption dates was extended to 30 June 2019 or earlier at the Company's choice. The figure as at 31 December 2016 includes £5,523,719 (2015: £3,636,609) in respect of the accrued interest and redemption premium.

The Converted Redeemable Preference Shares ("CRPS") are redeemable at the Company's discretion at any time up to 31 December 2020 and are redeemable on that date if not previously redeemed. Subject to Board approval, the CRPS are also redeemable at par at the shareholder's request in the event of a listing or sale of the Company. On redemption the holder of a CRPS is entitled to one Ordinary share for every 5.5 CRPS held, hand payment of the par value of the CRPS less £0.01 for every Ordinary share so issued. In the event of a liquidation of the Company, the CRPS are entitled to repayment at par, and to participate in any further distribution of any surplus assets, based on the number of Ordinary shares the CRPS would convert into at a rate of one Ordinary share for every 5.5 CRPS held.

Following the acquisition of the Company by Metaswitch Networks Ltd on 10 February 2017, the bank loan, subordinated secured fixed rate notes, and converted redeemable preference shares were repaid in full. The Group and Company has no external debt after this date.

17) Post-employment benefits

The company contributes to employee pension schemes. The assets of the schemes are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £167,004 (2015: £174,634). Contributions totalling £37,986 (2015: £32,177) were payable to the fund at the year-end and are included in creditors.

18) Financial instruments

As at 31 December 2016 a provision of £nil has been recognised in the financial statements with respect to the loan interest cap associated with the term loan (31 December 2015: £13,745).

The financial instruments disclosures for the Company are the same as for the Group.

19) Share capital

Group and Company

Allotted, Issued and Fully Paid Share Capital	2016 £	2015 £
Open Cloud Limited		
6,783,653 Ordinary shares (2015: 6,756,466) of £0.01 each	**67,835**	67,564
16,586,217 A preferred shares (2015: 16,586,217) of £0.01 each	**165,863**	165,863
10,994,178 B preferred shares (2015: 10,994,178) of £0.01 each	**109,942**	109,942
	343,640	343,369

During the year 27,187 (2015: 464,908) ordinary shares, with a nominal value of £0.01 (2015: £0.01) were issued, for a consideration of £761 (2015: £13,017) as a result of the exercise of share options.

The following is a summary only of the main rights attaching to the various share classes in the Company. A description of the full rights is to be found in the Company's Articles of Association.

Ordinary shares
Ordinary shares confer on their holders the right to vote and the right to an equal share in dividends.

A preferred shares
In the event of a liquidation or sale of the Company, the A preferred shares ("A Prefs") are entitled, ahead of the ordinary shareholders, to repayment of the amount subscribed, before payment of any other amounts to ordinary shareholders. The A Prefs carry certain anti-dilution rights.
The A Prefs rank pari passu with the B Prefs and ordinary shares in respect of matters relating to dividends and voting rights and may be converted to ordinary shares at the A Prefs shareholders' request on a one for one basis and shall then rank pari passu with ordinary shares.

B preferred shares
In the event of a liquidation or sale of the Company, the B preferred shares ("B Prefs") are entitled, ahead of all other shareholders, to repayment of the amount subscribed, before payment of any other amounts to other shareholders. The B Prefs carry certain anti-dilution rights.

The B Prefs rank pari passu with the A Prefs and ordinary shares in respect of matters relating to dividends and voting rights and may be converted to ordinary shares at the B Prefs shareholders request on a one for one basis and shall then rank pari passu with ordinary shares.

20) Notes to the Cash flow

Group cash flow from operating activities

Reconciliation of operating profit to net cash (outflow)/inflow from operating activities:

	2016	2015
	£	£
Loss for the financial year	**(2,759,020)**	(2,137,287)
Tax charge	**114,551**	92,257
Interest payable	**2,343,382**	1,703,954
Interest receivable	**(255)**	(11,482)
Depreciation charge	**53,662**	63,262
Increase/(decrease) in debtors	**(517,787)**	766,657
Increase in creditors	**573,184**	425,111
Net cash (outflow) inflow from operating activities	**(192,283)**	902,472

Company cash flow from operating activities

Reconciliation of operating loss to net cash inflow from operating activities:

	2016	2015
	£	£
Loss for the financial year	**(3,078,211)**	(3,310,169)
Tax charge	**110,808**	97,425
Interest payable	**2,343,382**	1,699,377
Interest receivable	**(255)**	-
Depreciation charge	**42,226**	51,136
(Increase)/decrease in debtors	**(230,345)**	1,949,375
Increase in creditors	**642,223**	436,868
Net cash (outflow)/inflow from operating activities	**(170,172)**	924,012

21) Reconciliation of movements in shareholders' deficit

Group	2016	2015
	£	£
Proceeds of issuance of ordinary shares	**761**	13,017
Loss for the financial year	**(2,759,020)**	(2,137,287)
Unrealised exchange (loss)/gain on consolidation of foreign subsidiaries	**(237,704)**	298,734
Net change in shareholders' deficit for the year	**(2,995,963)**	(1,825,536)
Opening shareholders' deficit	**(4,798,795)**	(2,973,259)
Closing shareholders' deficit	**(7,794,758)**	(4,798,795)

22) Related party transactions

Details of the relationship of the Company with its subsidiaries are disclosed in note 13.

Mr J Gordon was a director of Open Cloud Limited and a director and shareholder of Daroy Gordon Limited. During the year ended 31 December 2016, Daroy Gordon Limited provided £155,911 of professional services to Open Cloud Limited (2015: £201,736). There was £nil outstanding under these arrangements as at 31 December 2016 (2015: £nil).

Nokia Solutions and Networks (NSN) is a shareholder in the Company and, through its various subsidiaries is also a reseller of the Company's products and services. During the year ended 31 December 2016 the Company invoiced goods and services at a value of £897,307 to NSN (31 December 2015:£848,948). At 31 December 2016 £368,139 was due from NSN (31 December 2015: £220,843). These goods and services are transacted on normal commercial terms via a reseller agreement, and NSN corporate governance procedures ensure that the management of the shareholding within the NSN M&A division is kept entirely separate from the management of the commercial relationship.

Metaswitch Networks Limited acquired 100% of the shares in Open Cloud Limited on 10 February 2017 and prior to this, it was a customer. During the year ended 31 December 2016 the Company invoiced goods and services at a value of £98,756 (2015: £nil)). At 31 December 2016 £31,906 was due from Metaswitch Networks Limited (2015: £nil).

The Subordinated Secured Fixed Rate Notes, issued in October 2012 were issued to the following parties:

Party	Nature of Relationship	Amount £
Advent Private Equity Fund IV Limited Partnership	Shareholder	1,425,743
Advent Management IV Limited Partnership	Shareholder	14,257
Mr J Gordon	Director	50,000
Mr P Green	Company Secretary	10,000

23) Controlling party

As at the balance sheet, there was no ultimate controlling party.

On 10 February 2017, Open Cloud Limited and its wholly-owned subsidiaries were acquired by Metaswitch Networks Ltd, a company incorporated in England and Wales. The ultimate controlling party of Metaswitch Networks Ltd is DC HoldCo SARL, a company incorporated in Luxembourg.

24) Events after the reporting year

On 10 February 2017 the Company 100% of the share capital of Open Cloud Ltd was acquired by Metaswitch Networks Ltd.

All bank loans and external borrowings of the Group and Company were also repaid or settled on the acquisition date.

On 1 September 2017, all employees of the Company were transferred to Metaswitch Networks Limited.

25) Capital commitments

At 31 December 2016, the Group and Company had the following capital commitments:

The Group and Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2016	2015
	£	£
Not later than one year	**213,172**	206,312
Later than one year and not later than five years	**379,756**	129,053
	592,928	335,365