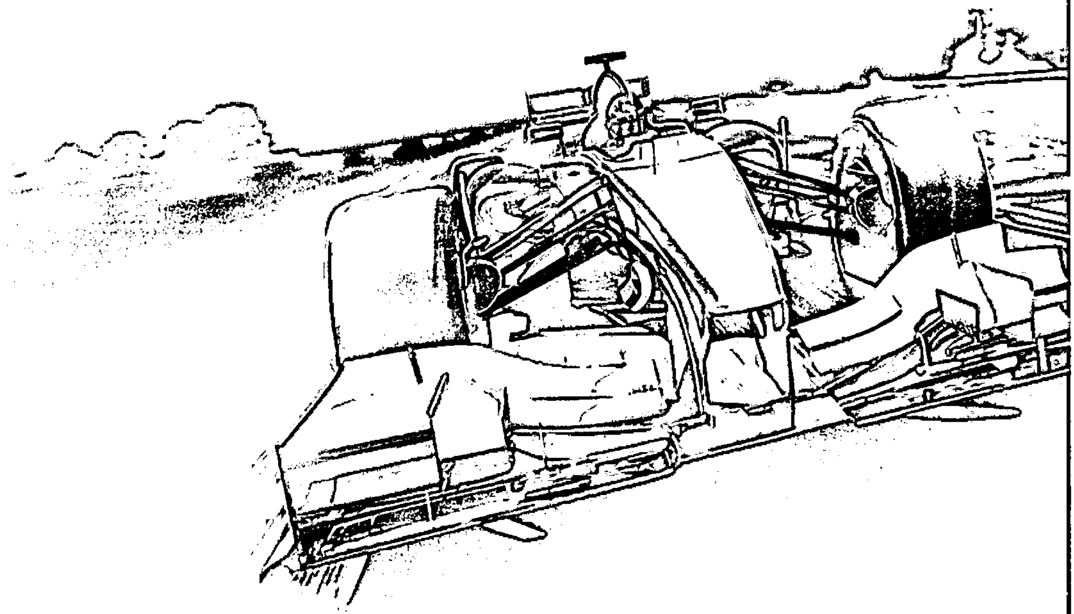
The Faster Way Forward



metaswitch

ANNUAL REPORT

FOR THE YEAR ENDED
31 AUGUST 2019

CONTENTS

METASWITCH NETWORKS LTD
STRATEGIC REPORT
FOR THE YEAR ENDED 31 AUGUST 2019

The Directors (the "Directors") of Metaswitch Networks Ltd (the "Company" or "Metaswitch") present their Annual Report, together with the financial statements of the Company and its subsidiaries (together the "Group") and Independent Auditor's Report, for the year ended 31 August 2019 (the "Reporting Period"). The Directors, in preparing the Strategic Report, have complied with s414C of the Companies Act 2006.

Metaswitch Vision

Metaswitch's vision is to be the preeminent developer of the high-performance network software that powers cloud-centric communication services and platforms. Our software solutions equip, accelerate and transform the world's most important and disruptive communications service and platform providers. As these providers seek to successfully navigate the evolution to a cloud-based future, a strategic relationship with Metaswitch is invariably seen as "the faster way forward."

At Metaswitch, we develop the software products and solutions that underpin the communication service networks and platforms of today and tomorrow. Our cloud-native virtual network functions perform critical roles in communication networks and are designed from the ground up to run on commodity hardware in private, public and hybrid clouds. This software powers the voice, data and unified communications services of fixed, mobile and converged operators, while also acting as the foundation on which incumbent operators and new entrants are building the cloud-based service platforms of the future.

We sell our products, solutions and technologies to more than 800 of these operator customers, worldwide. In turn, these operators are realising the full economic, operational and technological benefits of becoming cloud-based and software-centric as they disrupt their old network architectures, business models and vendor incumbencies with Metaswitch.

The Metaswitch Difference

As a pioneering network software provider, Metaswitch has a history of powering the voice, data and unified communications services of some of the world's largest operators. From the ground up, we leverage and fuse our expert knowledge of the software and programming languages that dominate both web-scale applications and more traditional communication networks. We embrace agile development methodologies that maximise the speed of innovation. We are the first company to deploy the same software in both the central office/local exchange and the data center, carefully taking our customers on the necessary journey from where they have been to where they must go. This cloud-native approach to developing our mission critical software is not only helping traditional communications service providers transform their networks, but also uniquely positions us as the partner of choice for ambitious new entrants that understand the architectural needs of today's new service platforms.

Our reputation has been earned and maintained by remaining fully focused on four key strengths:

- **Network Software DNA:** As a cloud-native networking pioneer, Metaswitch delivered platforms that separated control and user planes as early as 1990. We subsequently delivered the world's first cloud-native IMS voice core, fully containerised 5G core and software-only packet processor. Our deep, first hand insights into customer cloud and ecosystem requirements, early adoption of agile development methodologies, and proven product innovation fully exemplifies our deep knowledge of cloud-native networking know-how.

- **Critical Mass of Scarce Talent:** The world's best network software engineering specialists are hard to find - which is why Metaswitch has worked hard to recruit and retain a unique talent pool. Hiring from the world's top schools, our thirst to put some of the best engineers in a uniquely collaborative environment has led to productivity and retention metrics that surpass industry averages.

- **Cloud-native IP:** Metaswitch has built an enviable portfolio of cloud-native products and solutions. We use our proprietary Quicksilver microservices development platform to accelerate the creation of cloud-native software elements. These products are designed from the ground up to be hardware independent, container ready and automation oriented.

- **Proven Execution Excellence:** We believe that our company's success depends on our customers' success, and have built an envied, world-class support organisation. Whether our customers need help with installation, commissions, migrations, 24/7 customer care, training or custom professional services, Metaswitch has earned a stellar reputation for excellence in supporting customers through their most complex technology transitions. While the quality of support is critical, in today's hyper-competitive market, customers also look to Metaswitch to move quickly with bringing new services to markets. In many instances, we have implemented POCs and even new services in just a matter of days – greatly exceeding customer expectations.

Market Opportunity Overview

Facing continuous technological and competitive change, communication service providers (CSPs) are now entering a 5G era that demands a new perspective on how networks should be built, the roles that operators will play and the battlefronts on which they will compete. These networks need to be flexible and scalable enough to support a wide variety of new applications and devices, while cost effective enough to support an exponential increase in customer data traffic. 5G standards are mandating software that is built on cloud-native architectural design principles. As the cloudification of digital services simultaneously becomes the norm, operators are looking at where best to deploy these cloud-native elements: In public, private or hybrid clouds, in the core, or at the edge.

As deployments become more distributed, software components more populous and lightweight, and service options more granular, the need for process automation quickly becomes apparent. With software instances, applications and network services needing to be spun up and torn down in real time across geographically dispersed locations, network operators have no way to address the complex real time demands of service provisioning other than through advanced element orchestration and process automation.

This need for change in the network is compounded by the rapidly changing needs of consumer and enterprise customers alike. With the majority of end users now mobile-first, service providers and enterprise IT departments are also challenged to provide intuitive "mobile native" services that transcend device type, ownership and locations.

These converging market forces aren't just driving a need for rapid adaptation within incumbent service providers, they are also opening the door to new entrants: the well-established giants in adjacent market segments that are now ideally positioned to seize on the seismic changes in both service architectures and customer demands. The needs of 5G-enabled communications services - from ultra-low latency connectivity, to massive bandwidth delivery to homes and devices; from billions of devices to dedicated network slices for single application providers - simply cannot be delivered using the network architectures and entrenched vendor relationships of the past

While traditional service providers have the potential to transition to these new requirements, they also face competition from the cloud giants that have built massively scalable, cloud-native operations for mass market, enterprise IT and commercial applications. These giants have the know-how, locations and resources to build any application in their clouds or with hybrid models that leverage smaller cloud stack instantiations at the customer premise or in the multi-access compute edge. Their networks and applications will run exclusively on their own hardware designs or on platforms from established compute server suppliers, not the traditional, proprietary and expensive hardware appliances that have for years been deployed in traditional communication networks.

In this battle between service and platform providers, the truly cloud-native "telco" will win by embracing an approach that best leads to a scalable, usage-based, extremely automated, software-defined architecture that supports rapid innovation and new network services on demand. This will be substantially different from the networks of old that were built on a box-centric mindset, with limited service offerings, lengthy depreciation cycles, manual operations and long innovation cycles.

Winning operators will not only embrace the need for a new type of service platform for this new type of network, but they will also partner with the suppliers most capable of delivering the software products and solutions that power it.

Market Strategy

Metaswitch continues to capitalise on this transition of telecommunications core network infrastructure to edge and cloud deployments with a portfolio of software-based, open, scalable network functions and innovative applications. We also continue to replicate our historical success with fixed line traditional operators by delivering "full stack" (from core to application) solutions for established mobile and converged service providers. During our financial year ended 31 August 2019, we made significant progress executing on this market strategy by:

- Scaling a live cloud-native solution for a Tier 1 US mobile service provider to more than 10 million subscribers.
- Winning new Tier 1 accounts across a range of geographical regions, including two of the world's largest mobile operators.
- Securing more than 40 new operator customers.
- Driving significant growth of a critical new cloud service that blocks unwanted robocalls.
- Growing our unified communications business at more than 30%, easily eclipsing average industry growth rates.
- Launching the Metaswitch 5G Fusion Core, with unmatched packet processing performance on a single server.
- Releasing MaX UC, a mobile native unified communications and collaboration solution that enables operators to address the enterprise segment.

Metaswitch Solutions and Products

Recognised as one of the leaders in providing high performance software to the communications industry, Metaswitch has gained a reputation for providing the industry's most resilient, best-supported, carrier grade software for voice, data and unified communications services.

In core networks, our software enables high-performance, highly-reliable voice, video, messaging and collaboration services while powering high-volume network traffic processing. At the border of telecom and cable networks our software provides security, interconnectivity and network analytics. And on the screens of mobile devices it connects to, or defines, unified communications and collaboration environments for work and home.

Our software is packaged into well-defined, standards-based products and delivered as solutions that meet recognised market needs; for network operators and global systems integrators.

Market opportunities addressed by our products and solutions include

- Mobile: 5G packet core; Voice over LTE (VoLTE); Voice over WiFi; Open Service Creation; Virtual IMS; Group Communications and Collaboration
- Fixed: Network Transformation; Fixed IMS; Voice Interconnect; Robocall Blocking; and
- Unified Communications: Hosted UC; Collaboration; Contact Center; SIP Trunking

With a history of delivering carrier-class software and appliances, Metaswitch understands the particular needs of real-time communication service providers and is known as a company that is constantly demonstrate the continuation of these high and necessary standards for product performance when moving physical network functions into the cloud.

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 actual 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. In particular, the communications industry is moving away from hardware-centric networks toward software based networks;

- IP infringement claims – such claims are common in our industry. The Group seeks to mitigate this risk through patent, copyright and trademark law. However third parties, including competitors, have and could in the future assert infringement claims against us including for past infringement, which could force us to pay royalties and/or redesign our software and incur significant costs. As at 31 August 2018 the Group had significant intellectual property infringement claims open with Genband US LLC and Sonus Networks Inc. Settlement of these cases was reached during the financial year ended 31 August 2019 with Ribbon Communications Inc, the entity formed following the 2017 Sonus and Genband merger. Refer to notes 18 and 19 of the consolidated financial statements for details of the relevant cases and settlement reached;

- Competition – the Group operates in a competitive market with significant product innovations, so we are subject to the threat of our competitors developing new products in our markets before we make corresponding updates and developments to our own product range, in order to mitigate against this risk the Group is continuously seeking to build on and widen our product portfolio;

- IT security – system downtime or a security breach, whether through cyber-attacks or technology failure, could significantly affect the product and services offered to our customers, in addition to the Group's own internal IT systems. The Group works continuously to improve the robustness and security of the Group's information technology systems;

- Financial – the Group incurs significant expenditure in GBP from its head office operations and is therefore exposed to movements in exchange rates, this risk is mitigated to the extent of the commercially hedged forward currency contracts entered into by the Group; and

- Brexit – the Group has been monitoring the impact of the UK leaving the European Union ("EU") ("Brexit") will have on its operations. Given Europe, and specifically the UK, is not a significant market for the Group, management are of the opinion that the impact will be minimal. Management has carried out a risk assessment, including a "No-deal" Brexit, on the impact in areas such as hardware deliveries, associated duties and taxes, employment status of EU residents, and customer and supplier contracts. Based on this assessment, the Group has an agreed plan to implement, regardless of how the UK leaves the EU, that will minimise disruption to ongoing operations.

Climate change

The Group are aware of the recommendations laid down by the UK's Government Committee on climate change for the UK to be carbon neutral by 2050. In response to this statement, the Group has set up a Corporate Sustainability Committee to discuss the Group's strategy with regards to climate change. This committee meets periodically during the year to identify areas of the Group's operations and business processes that will be impacted. Whilst not considered a significant or principal risk to the business, the committee are currently in the process of determining the first focus areas to contribute towards the UK Government's targets, for example, outlining a business travel policy, analysis of operations and infrastructure, and emissions arising from deployed products. The Committee continues to report on these areas to senior management.

Key performance indicators

In addition to the KPIs used in the financial highlights referred to below, the Group's management use non-financial key performance indicators to monitor certain operational aspects of the business. These include, but are not limited to, the following:

- Bookings of $187.2m (2018 - $183.0m), an increase of 2.3% (2018 – increase of 16.5%);

- Targeted reliability rate on deployed network services – 5.7 (2018 – 5.5), measured in nines;

- Maintenance renewal rate of 97.3% (2018 – 96.9%); and

- Customer satisfaction surveys, where 55% (2018 – 64%) of those surveyed said Metaswitch's support was "better" or "much better" than any other vender in their network.

Financial highlights

Metaswitch produced a strong performance during the 2019 financial year. The highlights of the year were as follows:

- Revenue of $180.0m compared to $175.5m in the prior year representing annual growth of 2.5%;
- Adjusted operating profit (reconciled to statutory (loss)/profit before tax on page 6), of $31.4m, an increase of $2.2m on the prior year (2018 - $29.2m).
- The Group has made an operating loss of $42.5m compared to $13.7m profit in the prior year, due to the IP infringement claim settlement reached during the year. For further details see note 19;
- Adjusted profit before tax of $28.1m, a 7.1% increase on the prior year (2018 - $26.2m);
- Revenue was derived from a diverse customer base with no single customer in 2019 or 2018 representing more than 10% of revenue. Customers from North America accounted for 66% (2018 – 67%) of revenue and repeat business from existing customers was 96% (2018 – 93%) of revenue;
- A substantial and targeted investment of $42.0m (2018 - $40.6m) was made in R&D, which will drive future revenue growth. In the last three years, Metaswitch has invested significantly in research, spending $116.0m over that period (expensing the full research amount each year);
- The available for sale investment held as a non-voting interest in a US technology company was sold during the year for cash proceeds of $11.6m; and
- In anticipation of the Group moving to their new global headquarters at the end of 2020, on 13 August 2019 the Group sold the existing UK headquarters freehold land and building for $6.8m. The cash proceeds will be used to fund the capital works to the new office. The Group continues to occupy the building on a sale and leaseback basis, until such time as the new office is ready for occupation.

Consolidated adjusted income statement for the year ended 31 August 2019

The Group's key performance indicators (KPIs) are Revenue, 'Adjusted operating profit' and 'Adjusted profit before tax' which are set out in the table below.

The presentation of the Consolidated Income Statement on page 13 of the audited consolidated financial statements is in accordance with IFRSs adopted by the European Union. The "adjusted operating profit" referred to within this report is used by the Board as a key performance indicator and is defined as the operating profit of the Group before certain adjusting items. "Adjusted profit before tax" is defined as adjusted operating profit less adjusted net finance expenses. A reconciliation to profit before tax is included below:

	2019 $'000	2018 $'000
Revenue	**179,980**	175,528
Cost of sales	**(55,081)**	(52,181)
Gross profit	**124,899**	123,347
Sales and marketing expenses	**(36,094)**	(38,856)
Research and development expenses	**(41,826)**	(40,313)
General and administrative expenses	**(15,576)**	(15,148)
Other operating income	**32**	179
Adjusted operating profit	**31,435**	29,209
Finance income	**341**	85
Finance expenses	**(3,705)**	(3,089)
Adjusted profit before tax	**28,071**	26,205
Adjusting items (note 8 and below)	**(74,433)**	(16,182)
(Loss)/profit before tax	**(46,362)**	10,023

Adjusting items are as follows:	2019 $'000	2018 $'000
Profit on disposal of freehold land and buildings	**515**	-
Legal settlement costs	**(51,404)**	-
Legal settlement interest	**(542)**	-
Significant non-recurring legal costs	**(18,009)**	(8,465)
Derivative financial instruments – fair value adjustment	**(103)**	(1,005)
Foreign exchange (losses)/gains on realised forward contracts	**(1,637)**	1,842
Share-based payment charge	**(474)**	(938)
Restructuring charges	**(432)**	(712)
Acquisition and integration costs	**(28)**	(514)
Amortisation of acquired intangibles	**(2,319)**	(2,594)
EBT tax saving payment	**-**	(3,156)
Change in fair value of deferred consideration	**-**	(640)
Total adjusting items	**(74,433)**	(16,182)

Adjusting items are described in note 8 to the consolidated financial statements. A reconciliation between Adjusted operating profit and Adjusted profit before tax is included in the Consolidated Income Statement on page 13.

Conclusion

Metaswitch is committed to our long term mission of helping progressive service providers innovate disruptive networks and business models. For more than thirty years, we have successfully developed software products and solutions that underpin the most reliable communication networks from the world's most recognisable and dependable service providers. Our customers have trusted us to not only deliver flexible, programmable and high-performance software products but also to develop innovative, turn-key applications that are deployed rapidly and help acquire and retain revenue-generating consumer and business customers.

In an industry long characterised, enabled and challenged by rapid technology and market change, we are now entering what is arguably the most significant transition of all: The move to massively scalable, minutely granular, ultra-high performance cloud-native software architectures that will be deployed in myriad edge, network and cloud locations to power modern 5G networks and applications. Metaswitch has a unique combination of thought-leadership, business experience, structure, stability and culture of engineering-led software innovation to remain a force that drives this major market transformation.

While the speed of change will vary by service provider, Metaswitch is well positioned to deliver technology and support at every point on the evolutionary curve. In turn, these network operators are realising the full economic, operational and technological benefits of becoming cloud-based and software-centric as they work with Metaswitch to progressively disrupt their old network architectures, business models and vendor incumbencies. With a reputation built on our network software DNA, world-class talent, cloud-native IP and proven execution excellence, customers worldwide are confident that by working with Metaswitch they have securely chosen "the faster way forward."

Approved by the Board and signed on behalf of the Board

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Martin Lund
Chief Executive Officer
18 December 2019

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 August 2019.

Results and dividends

The consolidated income statement is set out on page 13 and shows the loss for the year.

No dividends were paid or proposed during the current or prior year.

Directors and directors' indemnity

The following Directors have held office throughout the year and up to the date of this report:

Jason Brein
Ian S Ferguson
James Goetz
Martin Lund
Graeme MacArthur
Steve Mullaney
Deep Shah

The Company has purchased, and maintained through 2019, Directors' and Officers' Liability Insurance (qualifying third party indemnity) in respect of itself and its Directors. This insurance is also in respect of Metaswitch Networks Corporation, a subsidiary of the Group.

Disabled persons

The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. Information on matters of concern to employees is communicated via emails, at regular Company or functional meetings and at individual status and appraisal meetings with the objective of seeking to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

Political and charitable donations

During the year ended 31 August 2019, charitable donations of $92,000 are included in the consolidated income statement (2018 - $110,000). In addition, the Group made charitable donations of $nil (2018 - $650,000) in respect of previously held accruals. There were no political donations made in the current or prior year.

Branches

The Company has branches in Hong Kong and Singapore and subsidiaries in the United States and other territories (note 26).

Research and development and future developments

The Group has a dedicated in-house software development team with primary focus on innovation in respect of new products and seeking to find simple solutions to complex processes. Costs related to research and development activities are typically expensed to the consolidated income statement when IAS 38 criteria for capitalisation are not met.

Under section 414C (11) of the Act, the Directors may include in the strategic report such of the matters otherwise included in the Directors' report. Future developments have been disclosed in the vision and strategy sections of the strategic report.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in note 1.5 to the consolidated financial statements.

Financial instruments

The Company uses financial instruments to manage exposures arising from its normal business activities. The financial risk management objectives of the Group are described in note 27 to the consolidated financial statements.

Share capital

The share capital of the Company comprises several classes of shares. The rights attaching to the different classes of share are described in note 21 to the consolidated financial statements.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

Deloitte LLP has expressed its willingness to continue as auditor and a resolution to this effect will be proposed at the Annual General Meeting of the Company.

Statement of disclosure to auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

(a) so far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware; and

(b) the Directors have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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

Approved by the Board and signed on behalf of the Board

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Ian S Ferguson
Director
18 December 2019

Independent auditor's report to the members of Metaswitch Networks Ltd
Report on the audit of the financial statements

Opinion
In our opinion:
- the financial statements of Metaswitch Networks Ltd (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the consolidated income statement;
- the consolidated and parent statement of comprehensive income;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company cash flow statement;
- the consolidated and parent company statements of changes in equity; and
- the related notes 1 to 28 for the group and 1 to 21 for the parent company.

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

Basis 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 the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, 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.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:
- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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 respect of these matters.

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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.

Helen Burridge

Helen Burridge (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

20 December 2019

METASWITCH NETWORKS LTD
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2019

		Year ended 31 August 2019			Year ended 31 August 2018		
		Results excluding adjusting items	Adjusting items (note 8)	Results for the year	Results excluding adjusting items	Adjusting items (note 8)	Results for the year
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	3	**179,980**	**-**	**179,980**	175,528	-	175,528
Cost of sales		**(55,081)**	**(766)**	**(55,847)**	(52,181)	(1,523)	(53,704)
Gross profit		**124,899**	**(766)**	**124,133**	123,347	(1,523)	121,824
Sales and marketing expenses		**(36,094)**	**(2,024)**	**(38,118)**	(38,856)	(2,467)	(41,323)
Research and development expenses		**(41,826)**	**(144)**	**(41,970)**	(40,313)	(265)	(40,578)
General and administrative expenses		**(15,576)**	**(70,957)**	**(86,533)**	(15,148)	(11,287)	(26,435)
Other operating income		**32**	**-**	**32**	179	-	179
Operating (loss)/profit	4	**31,435**	**(73,891)**	**(42,456)**	29,209	(15,542)	13,667
Finance income	5	**341**	**-**	**341**	85	-	85
Finance expenses	6	**(3,705)**	**(542)**	**(4,247)**	(3,089)	(640)	(3,729)
(Loss)/profit before tax		**28,071**	**(74,433)**	**(46,362)**	26,205	(16,182)	10,023
Tax credit/(charge)	9			**512**			(2,489)
(Loss)/profit for the year – attributable to owners of the Group				**(45,850)**			7,534

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2019

	Year ended 31 August 2019 $'000	Year ended 31 August 2018 $'000
(Loss)/profit for the year	**(45,850)**	7,534
Items that will be classified to profit and loss:		
Change in fair value of available for sale investment	**-**	6,602
Tax on items that have been or will be reclassified	**-**	(1,255)
Foreign exchange movement on translation of subsidiaries	**49**	371
Total items that will be classified to profit and loss	**49**	5,718
Total comprehensive (loss)/income for the year	**(45,801)**	13,252

METASWITCH NETWORKS LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2019

	Notes	31 August 2019 $'000	31 August 2018 $'000
Non-current assets			
Goodwill	10	**9,055**	9,055
Intangible assets	11	**8,032**	8,906
Property, plant and equipment	12	**5,277**	10,939
Non-current tax assets		**1,721**	532
Available for sale investment	13	**-**	11,567
Deferred tax assets	20	**16,500**	14,623
		40,585	55,622
Current assets			
Inventories	14	**2,554**	3,105
Trade and other receivables	15	**49,050**	53,823
Contract costs	3	**4,804**	5,818
Contract assets	3	**8,402**	4,084
Derivative assets	27	**82**	-
Current tax assets		**177**	131
Cash and cash equivalents		**17,142**	11,102
Restricted cash	18	**-**	11,269
		82,211	89,332
Total assets		**122,796**	144,954
Current liabilities			
Trade and other payables	16	**34,017**	27,085
Contract liabilities	3	**61,016**	63,891
Borrowings	17	**3,750**	3,000
Provisions	18	**745**	10,537
Derivative liabilities	27	**999**	813
Current tax liabilities		**1,531**	1,124
		102,058	106,450
Non-current liabilities			
Borrowings	17	**65,192**	54,656
Other payables	19	**16,354**	-
Deferred tax liability	20	**711**	1,106
		82,257	55,762
Total liabilities		**184,315**	162,212
Net liabilities		**(61,519)**	(17,258)

METASWITCH NETWORKS LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 AUGUST 2019

	Notes	31 August 2019 $'000	31 August 2018 $'000
Equity			
Share capital	21	3	3
Share premium	21	25,817	25,148
Capital redemption reserve	21	17	17
Available for sale reserve	21	-	5,347
Retained earnings	21	(87,144)	(47,512)
Translation reserve	21	(212)	(261)
		(61,519)	(17,258)

Approved by the Board and authorised for issue on 18 December 2019

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Martin Lund
Chief Executive Officer

Company Registration No. 01578918

METASWITCH NETWORKS LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2019

	Notes	Year ended 31 August 2019 $'000	Year ended 31 August 2018 $'000
Cash flows from operating activities			
(Loss)/profit for the year – attributable to owners of the Group		**(45,850)**	7,534
Adjustments for:			
Tax (credit)/charge		**(512)**	2,489
Finance expenses		**4,247**	3,729
Finance income		**(341)**	(85)
(Profit)/loss on disposal of property, plant and equipment		**(527)**	12
Depreciation and amortisation		**5,431**	5,450
Revaluation of derivative financial instruments		**103**	1,005
Share-based payment expenses		**881**	1,814
Operating cash (outflow)/inflow before movements in working capital and provisions		**(36,568)**	21,948
Legal settlement charge	19	**51,404**	-
Legal settlement payments	19	**(26,300)**	(11,200)
Decrease in provisions		**(108)**	(630)
Decrease in inventories		**551**	837
Decrease/(increase) in trade and other receivables		**4,307**	(10,090)
Increase in contract costs and assets		**(3,304)**	(336)
Increase/(decrease) in trade and other payables		**296**	(1,133)
(Decrease)/increase in contract liabilities		**(2,875)**	6,984
Cash (used in)/generated from operations		**(12,597)**	6,380
Interest paid		**(3,973)**	(3,074)
Interest received		**341**	85
Income taxes paid		**(2,123)**	(1,533)
Net cash (used in)/generated from operating activities		**(18,352)**	1,858
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,352)**	(1,948)
Purchase of intangible assets		**(2,623)**	(1,320)
Proceeds on disposal of available for sale investment		**11,567**	-
Proceeds on disposal of freehold land and buildings		**6,800**	-
Acquisition of business combination, net of cash acquired		**-**	(2,722)
Net cash generated from/(used in) investing activities		**13,392**	(5,990)
Cash flows from financing activities			
Issue of ordinary share capital, net of expenses		**-**	106
Repurchase of share capital		**-**	(11)
Proceeds from long-term borrowings	17	**14,000**	-
Repayment of long-term borrowings	17	**(3,000)**	(4,408)
Net cash generated from/(used in) financing activities		**11,000**	(4,313)
Increase/(decrease) in cash and cash equivalents		**6,040**	(8,445)
Cash and cash equivalents at beginning of year		**11,102**	19,547
Cash and cash equivalents at end of year	1.25	**17,142**	11,102

METASWITCH NETWORKS LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2019

	Share capital	Share premium	Capital redemption reserve	Available for sale reserve	Translation reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Equity at 1 September 2017	3	24,416	17	-	(632)	(56,849)	(33,045)
Profit for the year	-	-	-	-	-	7,534	7,534
Other comprehensive income for the year	-	-	-	6,602	371	-	6,973
Tax relating to components of other comprehensive income	-	-	-	(1,255)	-	-	(1,255)
Total comprehensive income for the year	-	-	-	5,347	371	7,534	13,252
Issue of share capital	-	106	-	-	-	-	106
Own shares acquired	-	-	-	-	-	(11)	(11)
Transfer from liabilities	-	626	-	-	-	-	626
Equity-settled share-based payments	-	-	-	-	-	1,814	1,814
Equity at 1 September 2018	3	25,148	17	5,347	(261)	(47,512)	(17,258)

	Share capital	Share premium	Capital redemption reserve	Available for sale reserve	Translation reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Equity at 1 September 2018	**3**	**25,148**	**17**	**5,347**	**(261)**	**(47,512)**	**(17,258)**
Transfer on adoption of IFRS 9	-	-	-	(5,347)	-	5,347	-
Loss for the year	-	-	-	-	-	(45,850)	(45,850)
Other comprehensive income for the year	-	-	-	-	49	-	49
Total comprehensive loss for the year	-	-	-	-	49	(45,850)	(45,801)
Issue of share capital	-	51	-	-	-	-	51
Own shares acquired	-	-	-	-	-	(10)	(10)
Transfer from liabilities	-	618	-	-	-	-	618
Equity-settled share-based payments	-	-	-	-	-	881	881
Equity at 31 August 2019	3	25,817	17	-	(212)	(87,144)	(61,519)

1 Accounting policies

1.1 General information

Metaswitch Networks Ltd ('the Company') is a company incorporated in England and Wales under the Companies Act 2006. The consolidated financial statements of the Group comprise the Company and its subsidiaries ('the Group'). The Company is a private company limited by shares.

The principal activities of the Group are described in the Strategic Report. The registered office of the Company is 100 Church Street, Enfield, EN2 6BQ.

The financial statements were authorised for issue by the Directors on 18 December 2019.

1.2 Basis of preparation

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. The financial statements are prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. Fair value 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The financial statements are presented in US dollars which is the Group's functional currency. Amounts are rounded to the nearest thousand, unless otherwise indicated.

The consolidated income statement and consolidated statement of financial position include the financial statements of the Company and its subsidiary undertakings made up to 31 August 2019. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The accounting policies set out below have been applied consistently (with the exception of the application of new accounting standards) in dealing with items which are considered material in relation to the consolidated financial statements.

1.3 Adjusting items

Adjusting items being material in terms of size and/or nature, are presented separately from underlying business performance in the consolidated income statement. In the opinion of the Directors the separate reporting of adjusting items helps provide an indication of the Group's underlying business performance, on an unhedged currency basis where the Group has entered into foreign exchange forward contracts. Adjusting items include the following, further detail Is set out in note 8:

- share-based payment charge;
- derivative financial instruments – fair value adjustment;
- foreign exchange (losses)/gains on realised forward contracts;
- significant legal costs;
- legal settlement costs;
- legal settlement interest;
- restructuring charges;
- acquisition and integration costs;
- profit on disposal of freehold land and buildings;
- change in fair value of deferred consideration;
- amortisation of acquired intangibles; and
- EBT tax saving payment

1 Accounting policies (continued)

1.4 Adoption of new standards and interpretations

The following new standards and interpretations are effective for the current year. Their adoption has not led to any changes in the Group's reported financial performance or position.

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, and has had a significant effect on the Group in the following areas:

Equity investments classified as available for sale financial assets under IAS 39 Financial Instruments: Recognition and Measurement have been classified as being at Fair Value Through Profit and Loss (FVTPL), unless an irrevocable election is made on the equity investment under IFRS 9. All fair value gains in respect of those assets are recognised in the statement of comprehensive income and accumulated in retained earnings. Any balance in the equity investment reserve relating to investments now treated as FVTPL on transition has been moved to retained earnings. Previously, under IAS 39, impairments of such assets were recognised in profit or loss, and gains and losses accumulated in reserves were recycled to profit or loss on disposal.

The impairment provision on financial assets measured at amortised cost (such as trade and other receivables) have been calculated in accordance with IFRS 9's expected credit loss (ECL) model, which differs from the incurred loss model previously required by IAS 39. The Group has chosen not to restate comparatives on adoption of IFRS 9 and, therefore changes have been processed at the date of initial application (i.e. 1 September 2018). The change to an expected credit losses model as required under IFRS 9 has had an immaterial impact on the Group.

As allowed by the transitional rules in IFRS 9, prior year financial statements have not been restated and, in any event, no material changes in the numbers recognised were required. The adoption of IFRS 9 has though resulted in presentational changes as described above. On the date of initial application, 1 September 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying value		
	Original (IAS 39)	New (IFRS 9)	Original ($'000)	New ($'000)	Difference ($'000)
Non-current financial assets					
Available for sale investments	Available for sale	FVTPL	11,567	11,567	-
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	51,033	51,033	-
Contract assets	Amortised cost	Amortised cost	4,084	4,084	-
Cash and cash equivalents	Amortised cost	Amortised cost	11,102	11,102	-
Restricted cash	Amortised cost	Amortised cost	11,269	11,269	-
Non-current liabilities					
Borrowings	Amortised cost	Amortised cost	54,656	54,656	-
Current liabilities					
Borrowings	Amortised cost	Amortised cost	3,000	3,000	-
Derivative liabilities	FVTPL	FVTPL	813	813	-

1.4 Adoption of new standards and interpretations (continued)

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

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

IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 September 2019. The Group has adopted IFRS 16 from 1 September 2019 and will apply the full retrospective application in accordance with IFRS 16:C5(a). The Directors' consider the impact of IFRS 16 on the financial statements of the Group, at the time of adoption, will be to increase assets by $4.0m, liabilities by $4.6m and reduce retained earnings by $0.6m. In addition the Group has entered into a lease agreement that will commence during 2021. The likely effect is to increase assets by $21.9m and create an equivalent lease liability. There will be no material impact on the Group profit before tax.

The Directors do not anticipate that the adoption of the other Standards and Interpretations in future years will have a material impact on the financial statements of the Group.

1.5 Going concern

The financial statements have been prepared on a going concern basis. The Group's business activities, together with factors likely to affect its future development, performance and financial position and commentary on the Group's financial results are outlined in the Strategic Report on pages 1 to 7 and the Consolidated income statement. Commentary on the Group's liquidity risk and borrowing facilities are set out in notes 27 and 17 to the financial statements, note 27 sets out the Group's objectives, policies and processes for managing its financial risk, details of its financial instruments, and its exposures to liquidity risk and credit risk.

The main factors contributing to the Directors' view of the Group as a going concern are as follows:

- trading forecasts (taking into account reasonably possible changes in trading performance) show that the Group expects to remain profitable and remain well within its facilities and covenants for the next 12 months following approval of this annual report;

- during the financial year the Group has settled the Ribbon Communications Inc patent infringement cases. This has provided certainty on future cashflows associated with these claims. Please refer to note 19 for further details.

- the Group's cash balance at 31 August 2019 was $17.1m (2018 - $11.1m) and there is significant headroom in the Group's existing bank facility (note 17).

- the Group has net current liabilities of $19.8m (2018 - $17.1m) including $52.2m (2018 - $57.1m) of deferred revenue (included in contract liabilities), excluding deferred revenue the Group has net current assets of $32.4m (2018 - $40.0m).

The Group's current bank facility agreement terminates on 2 August 2021. The Directors are not aware of any reason why a future renewal of the facilities would not be agreed.

1 Accounting policies (continued)

1.6 Foreign currency translation

The consolidated financial statements are presented in US dollars, which is the functional currency of the Company. The functional currencies of the Group's subsidiaries are determined by the primary economic environment in which the respective subsidiary operates.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rate ruling at the end of reporting period of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

1.7 Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control, of the acquiree. Costs directly attributable to the business combination are recognised in the income statement in the period they are incurred. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date.

Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of deferred or contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of deferred or contingent consideration classified as equity are not recognised. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and its fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill.

1.8 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units (CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

1 Accounting policies (continued)

1.9 Intangible assets

a) Separately acquired intangible assets

Separately acquired intangible assets, primarily software licences and patents, are initially measured at cost; comprised of the purchase price of the assets and the directly attributable costs of bringing the asset into its intended use. After initial recognition, the intangible asset is carried at cost less accumulated amortisation less any accumulated impairment losses. Amortisation is recognised so as to write off the cost or valuation of intangible assets over their useful lives, on an accelerated basis as the fair value of the benefits are expected to accrue to the Group, as follows:

• Purchased software	3 years
• Patents	5 years
• Trademarks	4-5 years
• Acquired software	4-5 years
• Customer relationships	4-5 years

b) Research and development

Expenditure on research activities as defined in IFRS is recognised in the income statement as an expense as incurred. Expenditure on internally generated intangible assets arising from the Group's development activities is recognised as an asset only when both the identification and recognition criteria as defined in IAS 38 "Intangible Assets" for an intangible asset are met as follows:

- the technical feasibility of completing the asset so that it will be available for use has been achieved;
- the Group has the intention to complete the asset and use or sell it;
- the Group has the ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use or sell the asset; and
- the development cost of the asset can be measured reliably.

If these conditions are not met, such development expenditure is recognised as an expense in the period in which it is incurred. The qualifying expenditure capitalised represents costs directly attributable to the development of the asset.

1.10 Property, plant and equipment

Property, plant and equipment other than freehold land, which is not depreciated, are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method, on the following bases:

Freehold buildings	Over period of 50 years
Leasehold improvements	15% on cost (or remaining term of lease if less)
Plant and machinery	20%-25% on cost
Fixtures, fittings & equipment	15% on cost
Motor vehicles	25% on cost

1 Accounting policies (continued)

1.11 Available for sale investment

Non-derivative financial assets carried as available for sale comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. Following adoption of IFRS 9 on 1 September 2018 equity investments classified as available for sale investments have been classified as being at FVTPL and all fair value gains in respect of these assets are recognised in the statement of comprehensive income and accumulated in retained earnings. Any balance in the equity investment reserve relating to investments now treated as FVTPL has been moved to retained earnings.

Prior to adoption of IFRS 9 (note 1.4) financial assets carried as available for sale were carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in the available for sale reserve. In accordance with IAS 39, a significant or prolonged decline in the fair value of an available for sale financial asset was recognised in the consolidated income statement. Purchases and sales of available for sale financial assets were recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available for sale reserve associated with that asset was removed from equity and recognised in the consolidated income statement.

1.12 Inventories

Inventories and short-term work in progress are stated at the lower of cost and net realisable value. Costs include materials and, where relevant, direct labour and appropriate overheads that have been incurred in bringing the inventories and work in progress to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Cost is calculated using the first-in, first-out method. Provision is made for slow moving or obsolete inventory as appropriate.

1.13 Revenue recognition

The Group follows the guidance of IFRS 15 "Revenue from Contracts with Customers", in determining appropriate revenue recognition policies. In principle, therefore, the Group follows the five step process when applying the revenue recognition policy:-

- Identify the contract(s) with the customers;
- Identify the performance obligation(s) in the contract(s);
- Determine the transaction price;
- Allocation of the transaction price; and
- Recognised revenue when (or as) a performance obligation(s) is satisfied.

Revenue is shown net of value-added tax, sales tax, returns, rebates and discounts, and after eliminating sales within the Group. Revenue comprises the value of sales of hardware (including delivery charges if payable by the customer), licences, subscriptions, professional services, royalties and revenues from support, maintenance and training.

Identify the contract(s)

The Group ensures that all the following criteria are met when identifying whether a contractual arrangement exists with the customer:

- All parties have approved the contract and committed to perform their obligations. Typically this includes a signed hardware and software purchase framework agreement, supported by individual purchase orders and/or Statement of Works (SOWs);
- Each party's rights regarding goods or services to be transferred can be identified;
- Payment terms can be identified and in line with the Group's acceptable credit terms, which are generally 30 - 45 days;
- Contract(s) have commercial substance; and
- Collection of the consideration is probable after the goods or services have transferred, which the Group assesses through credit checks, past payment history or the request of upfront payment prior to performance of the obligation(s).

1 Accounting policies (continued)

1.13 Revenue recognition (continued)

Identify the performance obligation(s) in the contract(s)

When identifying separate performance obligations in the contract(s), the Group considers whether the goods or services are "distinct", individually or as a bundled of goods or services, and whether a series of substantially similar distinct goods or services, that have a common pattern of transfer to the customer over time.

A distinct performance obligation is one where the customer can benefit from it on its own or with other resources, and it is distinct within the context of the contract. This includes a promise that is separately identifiable from other goods or services. Under the latter, the Group considers a performance obligation to be distinct when there is:

- No significant service of integrating; or
- No significant modification or customisation; or
- Not highly independent on or interrelated with other goods or services.

Where the Group concludes that a performance obligation is not distinct, it is bundled with the other performance obligations and the transaction price is allocated accordingly.

Determine the transaction price

The transaction price represents the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Variable consideration such as performance bonuses, return rights, price concessions and rebates are taken into account when determining the transaction price. Such arrangements are only accounted for to the extent there is a highly probable outcome that a significant reversal of cumulative revenue will not occur. Where a minimum revenue commitment exists in an arrangement, this is taken into account when determining the amount of variable consideration to recognise when the associated performance obligation has been fulfilled.

Furthermore, where the consideration is expected to be received more than one year after the performance obligation has been satisfied, the receivable is discounted to take into account the time value of money. Financing income is therefore accrued over time until the consideration has been settled.

Allocation of the transaction price

The Group allocates the transaction price to each separate performance obligation based on the relative standalone selling price. The standalone selling price is derived from the Group's list price taking into account agreed discounts marked against each product line.

Where an overall discount has been applied to a particular arrangement, then this is allocated across the separate performance obligations proportionally using the relevant standalone selling price.

Recognised revenue when (or as) a performance obligation(s) is satisfied

The Group recognises the revenue for each separate performance obligation when control has transferred. The Group assesses that control has passed over time when one of the following criteria are met:

- The customer is able to receive benefits as the work is carried out, or another party would not need to reperform; or
- An asset is created or enhanced that the customer controls; or
- An asset is not created with alternative use and there is a right to payment with profit for work completed to date.

If none of the above criteria is met, then the Group recognises revenue at a point in time.

Acceptance clauses

Customer agreements typically include product acceptance clauses. Where acceptance is deemed a formality, and cover mutually agreed-upon acceptance tests, then acceptance is generally ignored for the purposes of recognition. However, where significant invoicing is subject to acceptance conditions, management conclude that acceptance is non-standard and therefore revenue is deferred and recognised upon the earlier of formal acceptance from the customer or live traffic being deployed through the customer's network.

1 Accounting policies (continued)

1.13 Revenue recognition (continued)

Hardware and licences

Revenue from hardware and licence products which are distinct performance obligations are recognised when all of the conditions relevant to revenue associated with the sale of goods have been satisfied:

- the significant risks and rewards of ownership are transferred when an arrangement has been agreed and the goods have been delivered to the customer;
- continuing managerial involvement and effective control over goods sold is relinquished at the point at which goods are delivered to the customer;
- revenue is recognised to the extent that it is reliably measurable; any consideration due under the arrangement that is not deemed to be reliably measurable is deferred until it can be measured reliably; and
- revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group; any economic benefits of the transaction that are deemed unlikely to flow to the Group are deferred until it becomes probable that they will flow to the Group.

Revenue derived from the sale of the hardware and associated software components is normally recognised on shipment unless acceptance and/or services (installation and commissioning) conditions are not separate performance obligations. Where this is the case, the revenue from hardware, licenses and services is bundled and recognised either at a point in time (completion of services work) or over time (stage of completion and/or milestones), dependent upon the individual circumstances.

Professional services

Professional services agreements are for the development of software and related services which are designed to meet the specific requirements of each customer. Revenue from the sale of such professional services is recognised on a percentage-of-completion basis over the period from signing of the arrangement to customer acceptance. The percentage-of-completion is measured by monitoring progress using records of actual time incurred to date in the project compared with the total estimated project requirement, which approximates to the extent of performance.

Where services work includes key milestone payment dates that are closely aligned with how the customer obtains value from work completed over time, revenue is recognised on those invoiced milestones.

Installation and commissioning services

Where installation and commissioning service are separate performance obligations, revenue is recognised as the work is carried out on a percentage stage of completion basis. Where they are not distinct, separate performance obligations, the services revenue is bundled with the product and recognised in accordance with the rules above under "hardware and software". Typically this is for service orders that account for at least 30% of the total deal value as it is often under these circumstances where the services work is complex and can only be performed by the Group.

Maintenance

In addition to the hardware and software revenue, contracts generally contain an agreement to provide post-delivery service support, in the form of support, maintenance and training which consists of the right to receive services and/or unspecified product upgrades or enhancements that are offered on a when-and-if-available basis. Fees for post-delivery service support are generally specified in the contract and equate to fair value. Revenue for post-delivery service support is recognised on a straight-line basis over the period for which support and maintenance is contractually agreed by the Group with the licensee.

When the fee specified in the agreement for the maintenance to be provided does not equate to fair value or when no fee is separately specified, a portion of the total agreement fee is allocated to maintenance in an amount equal to its fair value, which is deferred and recognised as revenue as the services are rendered.

Royalties

Royalty revenues are earned on sales by the Group's customers of products containing Metaswitch technology. Royalty revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenues are recognised when the Group receives notification from the customer of product sales or receives payment of any fixed royalties. Notification is typically received in the quarter following shipment of the products by the customer.

1 Accounting policies (continued)

1.13 Revenue recognition (continued)

Contract balances

Where a performance obligation has been satisfied but not yet invoiced at the reporting date, the balance is included in contract assets on the statement of financial position. Where a performance obligation has not yet been satisfied but an invoice has been raised, the balance is included in contract liabilities on the statement of financial position.

Costs to obtain a contract

Costs to obtain a contract generally include sales commissions and incentives. Such expenses are deferred and recognised in the Group's consolidated income statement in line with the associated revenue recognition. Where sales commission payments for a period are in excess of the revenue recognised, the excess is deferred and included in contract costs on the statement of financial position.

Costs to fulfil a contract

Costs to fulfil a contract that are derived from external sources (cost of hardware and subcontractors) are recognised when the associated revenue is taken in the Group's consolidated income statement. Where revenue is deferred, the related costs are also deferred and included in contract costs on the statement of financial position. For costs incurred on performance obligations that have been satisfied, but the supplier has not yet invoiced the Group, the balance is included in contract liabilities.

1.14 Retirement benefit costs

The Group operates a defined contribution pension scheme in the United Kingdom, the assets of which are separately administered. In the United States of America the Group operates a plan whereby contributions are made to individual employees' retirement accounts. The pension contributions charged in the financial statements represent the contributions payable by the Group and are charged as an expense as they fall due.

1.15 Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position 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.

The carrying amount of deferred tax assets is reviewed at each reporting 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 recorded in equity.

1.16 Tax saving transfer

In accordance with the shareholders' agreement the Company is required to compensate the Employee Benefit Trust for the usage of any of the tax losses that arose on the transfer of ownership of the Company in 2008. These payments are included within general and administrative expenses in the consolidated income statement when they are approved by the Directors. Subsequent distribution of amounts to employees and Directors is at the discretion of the Employee Benefit Trust.

1 Accounting policies (continued)

1.17 Research and development expenditure credit (RDEC)

Certain of the Group's activities give rise to a research and development expenditure credit (RDEC) under the large company scheme. In accordance with guidance under both IAS 12 "Income taxes" and IAS 20 "Accounting for Government Grants", the RDEC is accounted for 'above the line' and forms part of the Group's operating profit. When determining the RDEC in each given year, the Group's research and development activities are reviewed in detail to ensure that only expenditure incurred directly on the R&D qualifying projects is included in the RDEC.

As the Group has a substantial deferred tax asset in respect of tax losses carried forward, the Group receives a cash receipt in respect of its RDEC claim each financial year, until such tax losses are fully utilised. The amount receivable in respect of the RDEC is included within trade and other receivables on the statement of financial position.

1.18 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

1.19 Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group does not enter into speculative derivative contracts and all such instruments, if used by the Group, are for hedging purposes to protect the potential future exposure to the Group in line with the Group's risk management policies. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

1.20 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease and disclosed within other operating income in the consolidated income statement.

1.21 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. Where cash payments are made by the employees and others receiving the award of equity instruments these amounts are deducted from the fair value of the equity instruments before determining the share-based payment expense.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Where equity settled instruments have been issued to customers a deduction has been taken against revenue in the consolidated income statement.

1 Accounting policies (continued)

1.22 Borrowings

Borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

1.23 Financial assets and financial liabilities

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

Financial assets
From 1 September 2018, the Group classifies its financial assets as those to be measured subsequently at fair value (either through OCI or through profit or loss) or those to be measured at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expenses in profit or loss. Changes in the fair value of financial assets at FVTPL are recognised in the statement of comprehensive income.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrecoverable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

Financial assets measured at amortised cost arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Loans and receivables (until 31 August 2018)
Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For trade receivables the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Derecognition of financial assets
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.

1 Accounting policies (continued)

1.23 Financial assets and financial liabilities (continued)

Financial liabilities
Financial liabilities are initially measured at fair value. They are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term, if on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or it is a derivative.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income.

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

1.24 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 the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

1.25 Cash and cash equivalents

Cash and cash equivalents comprise cash and short term bank deposits held with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position.

1.26 Restricted cash

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded as restricted cash on the consolidated statement of financial position. The Group's restricted cash balance relates to legal matters as described further in note 18 to the consolidated financial statements.

2 Critical accounting judgements and key areas of estimation uncertainty

Application of the accounting policies requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. These estimates are based on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and actual, the Group's future results of operations will be affected.

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

2 Critical accounting judgements and key areas of estimation uncertainty (continued)

a) Critical judgements in applying the Group's accounting policies

Revenue recognition (including costs to fulfil a contract)

The Group enters into agreements to sell hardware, software, services and bundled arrangements that include combinations of products and/or services. While the majority of the Group's sales transactions contain standard business terms and conditions, there are some transactions that contain non-standard business terms and conditions. As a result, contract review is required to determine the appropriate accounting including: (1) whether an arrangement exists; (2) how the arrangement consideration should be allocated among the deliverables based on their respective fair values if there are multiple deliverables; (3) specifically how the arrangement consideration should be allocated to the fair value of maintenance (the Group policy estimates a carve out range of 9-15%) and (4) when to recognise revenue on the deliverables. In addition, the Group's revenue recognition policy requires an assessment as to whether it is probable economic benefits will flow to the Group, which requires management to evaluate, among other things, the creditworthiness of its customers. Changes in judgements on these assumptions could materially impact the timing of revenue recognition.

b) Sources of uncertainty related to estimate and assumptions

Income taxes

The Group operates in various tax jurisdictions and is subject to audit by various tax authorities. The Group provides for tax contingencies whenever it is deemed probable that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws. Tax contingencies are based upon their technical merits, relevant tax law and the specific facts and circumstances as of each reporting period. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax contingencies.

As part of the process of preparing the consolidated financial statements, the Group is required to estimate its taxes in each of the jurisdictions in which it operates. The Group estimates actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred income tax.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets recognised on tax losses amount to $12.9m as at 31 August 2019 and the unrecognised losses were $194.6m (note 20). Significant management estimation is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Where the final tax outcome is different from the amount that was initially recorded, such differences will impact the current and deferred income tax liabilities in the period in which the determination is made. The Group makes estimates and judgements about its future taxable income that are based on assumptions that are consistent with its plans and estimates. Should the actual amount of future available profits differ from those estimates due to changes in Group forecasts, the amount of tax expense and liabilities could be impacted.

3 Revenue

The total revenue of the Group for the year has been derived from its principal activity.

	2019 $'000	2018 $'000
Sale of hardware	**18,661**	21,525
Sale of perpetual licenses	**48,386**	49,252
Sale of subscription licenses	**8,309**	6,046
Provision of services	**27,294**	24,784
Maintenance	**76,288**	72,748
Royalty income	**1,042**	1,173
	179,980	175,528

Analysis by geographical area

	2019 $'000	2018 $'000
United States of America	**117,894**	118,562
Rest of the World	**62,086**	56,966
	179,980	175,528

3 Revenue (continued)

Contract balances

The following table provides information about contract assets, contract costs and contract liabilities from contracts with customers. Contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the reporting date on customer contracts. The contract assets are transferred to receivables when amounts have been invoiced in accordance with agreed and committed payment schedules. The contract costs primarily relate to the cost of hardware and external subcontracting costs for service contracts that are deferred and recognised in line with the associated revenue. Contract liabilities primarily relate to the advance consideration received from customers on maintenance contracts, for which revenue is recognised evenly over the length of the contract.

	2019			2018		
	Contract assets $'000	Contract costs $'000	Contract liabilities $'000	Contract assets $'000	Contract costs $'000	Contract liabilities $'000
As at 1 September	**4,084**	**5,818**	**(63,891)**	4,948	4,618	(56,907)
Revenue recognised that was included in the contract costs/liability at the start of the period	**-**	**(2,935)**	**47,169**	-	(2,264)	46,839
Increase due to amounts invoiced, excluding amounts recognised as revenue during the year	**-**	**-**	**(42,317)**	-	-	(51,719)
Transfers from contract assets recognised at the start of the period, to receivables	**(3,352)**	**-**	**-**	(4,618)	-	-
Transfer from contract liabilities recognised at the start of the period to payables	**-**	**-**	**4,036**	-	-	2,540
Increases as a result of changes in the measure of progress and costs to obtain and fulfil contracts, including new contracts obtained during the year	**7,670**	**1,921**	**(6,013)**	3,754	3,464	(4,644)
As at 31 August	**8,402**	**4,804**	**(61,016)**	4,084	5,818	(63,891)

Amounts held in trade receivables in respect of contracts were $32.5m (2018 - $41.5m). The directors of the Group always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience (note 27).

4 Operating (loss)/profit

	2019 $'000	2018 $'000
Operating (loss)/profit is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**1,934**	1,944
Amortisation of intangibles	**3,497**	3,506
Change in fair value of derivative financial instruments	**103**	1,005
Share-based payments	**881**	1,814
Significant legal costs	**18,009**	8,465
Legal settlement costs	**51,404**	-
Restructuring charges	**432**	712
Acquisition and integration costs	**28**	513
Operating lease property rentals	**1,869**	1,551
Foreign exchange losses/(gains) on realised forward contracts	**1,637**	(1,842)
Net foreign exchange loss	**413**	156
Auditor's *remuneration (see below)*	**254**	329
Research and development expenditure	**41,970**	40,578
RDEC - included in the line above	**(2,634)**	(2,771)
(Profit)/loss on disposal of property, plant and equipment	**(527)**	12
Impairment of inventories	**128**	327

	2019 $'000	2018 $'000
Analysis of auditor's remuneration:		
Audit of the financial statements	**200**	202
Audit of overseas subsidiaries' member firms	**40**	32
Non-audit fees:		
Relating to administrative services and business transaction	**14**	95
	254	329

5 Finance income

	2019 $'000	2018 $'000
Bank interest	**341**	85
	341	85

6 Finance expenses

	2019 $'000	2018 $'000
Bank loans and overdrafts	**3,570**	2,924
Other finance expenses	**135**	165
Legal settlement interest (note 19)	**542**	-
Change in fair value of deferred consideration	**-**	640
	4,247	3,729

7 Pension costs

The Group operates defined contribution pension schemes for its Directors and employees in the UK and also contributes to individual retirement accounts in the United States. Total contributions payable by the Group during the year were $5.5m (2018 - $5.4m). Contributions outstanding at the statement of financial position date were $0.4m (2018 - $0.4m) and are included within accruals.

8 Adjusting items

As described in note 1.3 the Group presents a number of adjusting items separately to help provide an indication of the Group's underlying business performance. Adjusted operating profit is a KPI used to monitor Group performance and is also applied in bank covenant calculations. Adjusting items and the basis for presentation as such is as follows:

Adjusting item	**Basis for presentation as adjusting item**
Profit on disposal of freehold land and buildings	One-off gain on sale (note 12)
Legal settlement costs	One-off legal settlement (notes 18 and 19)
Legal settlement interest	Interest in relation to one-off legal settlement
Significant legal costs	Material non-recurring legal cost relating to patent infringement disputes not considered to be within the ordinary course of business
Derivative financial instruments – fair value adjustment	Excluded by management when assessing the performance of the Group on an unhedged currency basis
Foreign exchange (losses)/gains on realised forward contracts	Excluded by management when assessing the performance of the Group on an unhedged currency basis
Share-based payment charge	Non-cash item unrelated to underlying performance of the Group
Restructuring charges	One-off onerous leases (note 18)
Acquisition and integration costs	Items in relation to one-off acquisition of Open Cloud business during the year ended 31 August 2017
Amortisation of acquired intangibles	Non-cash item
EBT tax saving payment	Non-recurring payment to major shareholder
Change in fair value of deferred consideration	Non-cash item in relation to an acquisition

8 Adjusting items (continued)

	2019 $'000	2018 $'000
Share-based payment charge	**157**	319
Amortisation of acquired intangibles	**516**	653
Restructuring charges	**93**	551
Amounts recognised in cost of sales	**766**	1,523
Share-based payment charge	**121**	269
Amortisation of acquired intangibles	**1,803**	1,941
Restructuring charges	**100**	198
Acquisition and integration costs	**-**	59
Amounts recognised in sales and marketing expenses	**2,024**	2,467
Share-based payment charge	**119**	249
Restructuring charges	**25**	16
Amounts recognised in research and development expenses	**144**	265
Profit on disposal of freehold land and buildings	**(515)**	-
Legal settlement costs	**51,404**	-
Derivative financial instruments – fair value adjustment	**103**	1,005
Share-based payment charge	**77**	101
Foreign exchange losses/(gains) on realised forward contracts	**1,637**	(1,842)
Significant legal costs	**18,009**	8,465
Restructuring charge/(credit)	**214**	(53)
Acquisition and integration costs	**28**	455
EBT tax saving payment	**-**	3,156
Amounts recognised in general and administrative expenses	**70,957**	11,287
Legal settlement interest	**542**	-
Change in fair value of deferred consideration	**-**	640
Amounts recognised in finance expenses	**542**	640
Total adjusting items	**74,433**	16,182

The total share-based payment charge is summarised below:

	2019 $'000	2018 $'000
Recognised in cost of sales	**157**	319
Recognised in sales and marketing expenses	**121**	269
Recognised in research and development expenses	**119**	249
Recognised in general and administrative expenses	**77**	101
Total share based payments charge	**474**	938

9 Taxation

a) Taxation recognised in the income statement

	2019 $'000	2018 $'000
Current tax expense		
UK corporation tax charge	**1,049**	558
Foreign tax charge	**726**	2,202
Adjustments in respect of prior years	**(15)**	-
Total current tax charge for the year	**1,760**	2,760
Deferred tax (credit)/charge		
Origination and reversal of temporary timing differences	**(1,008)**	(927)
Change in tax rate	**(187)**	656
Adjustments in respect of prior years	**(1,077)**	-
Total deferred tax credit for the year (note 20)	**(2,272)**	(271)
Total tax (credit)/charge for the year	**(512)**	2,489

UK Corporation tax is calculated at 19% (2018 – 19.0%) of the estimated assessable (loss)/profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

b) Reconciliation of total tax charge to accounting (loss)/profit

	2019 $'000	2018 $'000
(Loss)/profit before tax	**(46,362)**	10,023
Tax (credit)/charge on Group (loss)/profit at standard UK corporation rate of 19.0% (2018 – 19.0%)	**(8,809)**	1,904
Tax effect of:		
Expenses not tax deductible	**709**	1,149
Different tax rates of subsidiaries operating in other jurisdictions	**159**	(95)
Change in tax rate	**(187)**	656
Withholding taxes suffered	**563**	612
Tax losses not recognised	**8,580**	144
Other timing differences	**(439)**	119
Utilisation of tax losses	**69**	(2,000)
Impact of disposal of chargeable assets	**(65)**	-
Adjustments in respect of prior years	**(1,092)**	-
Group income tax (credit)/charge for the year	**(512)**	2,489

Change in tax rate

The standard rate of UK corporation tax was reduced from 20% to 19% with effect from 1 April 2017. The rate will reduce to 17% from 1 April 2020. The reduction in the UK corporation tax rate is not expected to materially impact the group income tax credit.

10 Goodwill

	Goodwill
	$'000
Cost	
At 31 August 2017	9,160
Recognised on acquisition of Open Cloud	(105)
At 31 August 2018 and 31 August 2019	**9,055**
Carrying amount	
At 31 August 2019	**9,055**
At 31 August 2018	9,055

The following cash generating units have significant carrying amounts of goodwill:

	2019 $'000	2018 $'000
Metaswitch Networks	**9,055**	9,055

Metaswitch Networks CGU

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired. The recoverable amounts of the CGU are determined from the value in use calculations.

The Group prepares cash flow forecasts derived from the most recent financial budgets and forecasts approved by the Board of Directors, covering the next six years.

The key assumptions from the value in use calculations are those regarding bookings and revenue growth rates extrapolated from historical information, expected expenditure during the period and discount rates. The rate used to discount the forecast cash flows is estimated by reference to the Group's weighted average cost of capital and the degree of risk that management considers appropriate for a particular CGU. The pre-tax discount rate applied was 20% (2018 - 14%).

The growth rates are based on a combination of internal and industry growth forecasts and are reviewed for consistency with historically achieved growth rates. No long term growth rates are used in the calculations. Changes in direct costs are based on past practices and expectations of future changes in the market. Operating expense growth rates are in line with revenue growth rates. Given the significant amount of headroom available in the impairment test, management believes that there are no reasonably possible changes to key assumptions which would result in the recoverable amount of the CGU falling below the carrying amount.

11 Intangible assets

	Patents $'000	Software $'000	Trademarks $'000	Customer relationships $'000	Total $'000
Cost					
At 31 August 2017	6,194	7,985	855	8,295	23,329
Additions	1,014	306	-	-	1,320
Disposals	-	(25)	-	-	(25)
At 31 August 2018	7,208	8,266	855	8,295	24,624
Additions	931	1,692	-	-	2,623
Disposals	-	(123)	-	-	(123)
At 31 August 2019	**8,139**	**9,835**	**855**	**8,295**	**27,124**
Amortisation and impairment					
At 31 August 2017	4,357	5,846	124	1,908	12,235
Provided for the year	825	740	195	1,746	3,506
Disposals	-	(23)	-	-	(23)
At 31 August 2018	5,182	6,563	319	3,654	15,718
Provided for the year	850	844	176	1,627	3,497
Disposals	-	(123)	-	-	(123)
At 31 August 2019	**6,032**	**7,284**	**495**	**5,281**	**19,092**
Carrying amount					
At 31 August 2019	**2,107**	**2,551**	**360**	**3,014**	**8,032**
At 31 August 2018	2,026	1,703	536	4,641	8,906

Intangible assets with a carrying amount of $8.0m (2018 - $8.9m) are subject to fixed and floating charges from banks providing borrowing facilities to the Group (note 17). Amortisation of patents and software intangible assets is shown under 'cost of sales' and amortisation of customer relationships and trademarks intangibles is shown under 'sales and marketing expenses' in the consolidated income statement.

12 Property, plant and equipment

	Land and buildings freehold $'000	Land and buildings leasehold $'000	Plant, machinery, and equipment $'000	Total $'000
Cost				
At 31 August 2017	9,450	568	23,117	33,135
Additions	-	187	1,761	1,948
Disposals	-	(7)	(302)	(309)
At 31 August 2018	9,450	748	24,576	34,774
Additions	-	824	1,559	2,383
Disposals	(9,450)	-	(3,679)	(13,129)
At 31 August 2019	**-**	**1,572**	**22,456**	**24,028**
Depreciation				
At 31 August 2017	3,124	386	18,680	22,190
Provided for the year	112	34	1,798	1,944
Disposals	-	(7)	(292)	(299)
At 31 August 2018	3,236	413	20,186	23,835
Provided for the year	103	71	1,760	1,934
Disposals	(3,339)	-	(3,679)	(7,018)
At 31 August 2019	**-**	**484**	**18,267**	**18,751**
Carrying amount				
At 31 August 2019	**-**	**1,088**	**4,189**	**5,277**
At 31 August 2018	6,214	335	4,390	10,939

The profit on disposal of property, plant and equipment recorded in the income statement for the year ended 31 August 2019 was a profit of $527,000 (2018 – $12,000 loss). Of this profit $515,000 was in relation to the sale of the UK headquarters freehold land and buildings for $6.8m.

Included in land and buildings leasehold is $0.6m (2018 – $nil) in relation to an asset in the course of construction. At 31 August 2019 the Group had a contractual commitment of $6.2m (2018 - $nil) regarding this asset.

Property, plant and equipment with a carrying amount of $5.3m (2018 - $10.9m) are subject to fixed and floating charges from banks providing borrowing facilities to the Group (note 17).

13 Available for sale investment

	2019 $'000	2018 $'000
Available for sale investment	-	11,567

The investment held as a non-voting interest in a US technology company was sold on 5 November 2018 for $11.6m.

14 Inventories

	2019 $'000	2018 $'000
Finished goods	**2,554**	3,105

Inventories with a carrying amount of $2.6m (2018 - $3.1m) are subject to fixed and floating charges from banks providing borrowing facilities to the Group (note 17).

Included within cost of sales are $8.9m (2018 - $10.3m) of inventories recognised as an expense during the year.

15 Trade and other receivables

	2019 $'000	2018 $'000
Trade receivables	**32,548**	41,455
Other receivables	**12,873**	9,578
Prepayments	**3,629**	2,790
	49,050	53,823

Trade receivables

The credit period on trade receivables is typically 30-45 days. No interest is charged on outstanding trade receivables. The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor. The Group has recognised a loss allowance of 100% against all receivables over 365 days past due because historical experience has indicated that these receivables are generally not recoverable. See note 27 (e) for further details.

16 Trade and other payables

	2019 $'000	2018 $'000
Trade payables	**3,519**	3,486
Other payables	**7,595**	4,745
Accruals	**12,579**	13,017
Due to Data Connection Second Employee Benefit Trust (note 25)	**2,548**	5,837
Legal settlement payable (note 19)	**7,776**	-
	34,017	27,085

The legal settlement payable is the amount due within one year to Ribbon under the terms of the settlement agreement, see note 19.

17 Borrowings

	2019 $'000	2018 $'000
Non-current liabilities		
Bank loans	**65,750**	55,500
Less: unamortised facility fees	**(558)**	(844)
	65,192	54,656
Current liabilities		
Bank loans and overdrafts	**3,750**	3,000
Loan maturity analysis:		
In less than one year	**3,750**	3,000
In more than one year but not more than two years	**20,750**	3,750
In more than two years but not more than five years	**45,000**	51,750
	69,500	58,500

Reconciliation of liabilities arising from financing activities:

	2019 $'000	2018 $'000
Opening balance at the start of the financial year	**57,656**	61,873
Proceeds from long-term borrowings	**14,000**	-
Repayment of long-term borrowings	**(3,000)**	(4,408)
Amortisation of facility fees	**286**	191
Closing balance at the end of the financial year	**68,942**	57,656

17 Borrowings (continued)

The following facilities are available to the Group as at the reporting date:

Facility	Currency	2019 Total facility $'000	2019 Undrawn and available $'000	2018 Total facility $'000	2018 Undrawn and available $'000
Revolver	USD/GBP	**23,500**	**9,500**	23,500	23,500
Overdraft	GBP	**2,400**	**2,400**	2,600	2,600
Term loan – Facility A	USD	**10,500**	**-**	13,500	-
Term loan – Facility B	USD	**45,000**	**-**	45,000	-
		81,400	**11,900**	84,600	26,100

The facilities have the following terms:

	Currency	Interest rate	Expiry
Revolver	USD/GBP	LIBOR +3.0%	2 August 2021
Overdraft	GBP	LIBOR +2.5%	4 April 2020
Term loan Facility A	USD	LIBOR +3.0%	2 August 2021
Term loan Facility B	USD	LIBOR +3.5%	2 November 2021

The amount advanced under the revolving multicurrency credit facility and the term loan is secured on all the Group's assets.

The overdraft facility is subject to an annual review.

18 Provisions

	Intellectual property infringement $'000	Warranty provision $'000	Restructuring provision $'000	Total $'000
At 1 September 2018	10,074	200	263	10,537
Transfer to other payables (note 19)	(9,684)	-	-	(9,684)
(Credit)/charge to the income statement	(190)	-	172	(18)
Utilisations	-	-	(90)	(90)
At 31 August 2019	**200**	**200**	**345**	**745**

Intellectual property infringement claims

On 29 May 2019 the Group entered into a Settlement and Licence Agreement (the 'Settlement Agreement') with Ribbon Communications Inc ('Ribbon') where the parties settled all claims between them and all actions or conduct that predated execution of the Settlement Agreement. The Settlement Agreement provides certainty as to the amount and timing of the settlement payments and therefore the provision of $9.7m held as at 1 September 2018 in relation to the Ribbon cases was transferred to other payables. See note 19 for further disclosures in relation to the Settlement Agreement. The Settlement Agreement covered a number of cases, the detailed background to which is set out below.

On 21 January 2014, Genband US LLC ("Genband") filed eight US patent infringement claims against the Company and its wholly owned subsidiary undertaking, Metaswitch Networks Corporation (the "first case"). The Group has sought specialist legal advice to defend such alleged patent infringements.

On 7 July 2014, the Company filed an action against Genband for infringement of seven of its own patents (the "second case"). On 12 September 2014, Genband filed counterclaims against the Group in the second case, alleging infringement of five further patents. On 18 March 2016, a jury in the second case found both parties' patents claims invalid and not infringed. Neither the Group nor Genband filed an appeal in the second case.

On 15 January 2016, a jury in Federal Court in the Eastern District of Texas found that the Group had infringed seven of the patents asserted in the first case and awarded $8.186 million in damages to Genband.

On 29 September 2016, the Eastern District of Texas Court denied Genband's motion for a permanent injunction against the Group, in relation to the first case.

On 22 March 2018, the Eastern District of Texas Court confirmed the original verdict by the jury. In May 2018, the Group made a payment of $11.3 million into an escrow account as a bond security in respect of the potential liabilities incurred in the first case. This payment was classified as restricted cash in the consolidated statement of financial position as at 31 August 2018 and was then released to Ribbon upon execution of the Settlement Agreement during the current year.

18 Provisions (continued)

On 8 March 2018, Sonus Networks Inc ("Sonus") filed two patent infringement cases against the Group asserting a total of ten additional patents. The Group filed its answer in each of the two new patent cases and asserted five counterclaim patents in each case against Sonus and its parent company, Ribbon Communications Inc. On 18 April 2018, Sonus filed a patent infringement lawsuit against the Group seeking enhanced damages for the Group's alleged continued infringement of the seven patents asserted against the Group in the first case.

The first and second cases have now been settled as part of the Settlement Agreement reached on 29 May 2019 (see note 19).

On 28 March 2017 Genband filed a third case asserting state law claims including trade secrets misappropriation. The Group asserted various state law counterclaims against Genband.

The third case has now been settled as part of the Settlement Agreement reached on 29 May 2019 (see note 19).

Warranty provision

The provision represents costs expected to be incurred to repair products installed on customers' networks in accordance with normal terms of business. The provision is expected to be utilised within one year.

Restructuring provision

A reversal of $0.1m has been made in relation to the onerous lease element of the provision to reflect the subletting of a vacant office during the year.

19 Other payables

On 29 May 2019 the Group entered into a Settlement Agreement with Ribbon where the parties settled all claims between them and all actions or conduct that predated execution of the Settlement Agreement. This Settlement Agreement covered a number of cases, the detailed background to which is set out in note 18.

Under the terms of the Settlement Agreement the Group will pay Ribbon $63.0m. Payments of $26.3m were paid to Ribbon during the year ended 31 August 2019. In addition, $11.2m, which was transferred to restricted cash during the year ended 31 August 2018, was released to Ribbon. A further $25.5m is payable under the terms of a promissory note. The promissory note bears interest at the rate of 4% per annum. The payments are due in three equal annual instalments along with any accrued unpaid interest on 26 June 2020, 2021 and 2022. The liability was discounted using a discount rate of 4.0%.

	Other payables $'000
At 1 September 2018	-
Transfer from provisions (note 18)	9,684
Charge to the income statement	51,404
Legal settlement interest accretion (note 6)	542
Legal settlement payments	(26,300)
Release of restricted cash	(11,200)
At 31 August 2019	**24,130**
Disclosed as:	
Trade and other payables: due within one year (note 16)	7,776
Other payables: due in more than one year	16,354
At 31 August 2019	**24,130**

20 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior year. The recognition of the deferred tax asset is supported by the forecast taxable income of the Group.

	Tax losses $'000	Property, plant & equipment $'000	Intangibles $'000	Retirement benefits $'000	Other temporary differences $'000	Total $'000
At 31 August 2017	13,202	(173)	(1,547)	55	2,964	14,501
(Charge)/credit to the income statement	(209)	(28)	441	11	56	271
Charge to statement of comprehensive income	-	-	-	-	(1,255)	(1,255)
At 31 August 2018	**12,993**	**(201)**	**(1,106)**	**66**	**1,765**	**13,517**
Adjustments in respect of prior periods	**-**	**(147)**	**-**	**-**	**1,224**	**1,077**
(Charge)/credit to income statement	**(70)**	**(142)**	**395**	**3**	**1,009**	**1,195**
At 31 August 2019	**12,923**	**(490)**	**(711)**	**69**	**3,998**	**15,789**

20 Deferred tax (continued)

At the reporting date, the Group has unused tax losses as follows:

	2019 $'000	2018 $'000
Recognised		
Tax losses	**75,189**	72,157
Other timing differences	**20,329**	14,401
	95,518	86,558
Unrecognised		
Tax losses	**194,578**	175,494
Total	**290,096**	262,052

No deferred tax asset has been recognised in respect of the remaining $194.6 million of tax losses (2018 - $175.5 million) as there is a degree of uncertainty relating to the availability and timing of future taxable profits against which the losses can be utilised. Losses of $3.5 million (2018 - $3.9 million) expire in 2029 with the remainder of losses being available for carry forward indefinitely. Unrecognised deferred tax assets are available indefinitely.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 $'000	2018 $'000
Deferred tax assets	**16,500**	14,623
Deferred tax liabilities	**(711)**	(1,106)
Net deferred tax assets	**15,789**	13,517

21 Share capital and reserves

a) Share capital

	2019 $	2018 $
Allotted, called up and fully paid		
120,900,566 A Preferred shares of 0.001p each	**1,920**	1,920
27,157,141 Ordinary Shares of $^1/_{3000}$ p each [(1)] (2018 – 26,646,203)	**137**	137
3 C1 Ordinary Shares of $^1/_{3000}$ p each	**-**	-
7,027,126 C2 Ordinary Shares of $^1/_{3000}$ p each (2018 – 6,934,419)	**38**	38
1,154,111 C3 Deferred Ordinary Shares of $^1/_{3000}$ p each (2018 – 1,246,818)	**6**	6
12,953,632 B1 Preferred Shares of 0.001p each	**206**	206
33,265,069 B2 Preferred Shares of 0.001p each (2018 – 33,134,441)	**538**	538
5,595,828 B3 Deferred Shares of 0.001p each (2018 – 5,726,465)	**86**	86
27,524,325 C Preferred Shares of 0.001p each	**413**	413
2,626,748 Additional Plan Ordinary Shares of $^1/_{3000}$ p each (2018 – 464,484)	**6**	6
	3,350	3,350

A reconciliation of the movement in the number of issued shares during the current and prior year is as follows:

	1 September 2018 Number	Issue of shares Number	Re-purchase of shares Number	Re-Designation Number	31 August 2019 Number
A Preferred Shares of 0.001p each	**120,900,566**	**-**	**-**	**-**	**120,900,566**
Ordinary Shares of $^1/_{3000}$ p each[(1)]	**26,646,203**	**510,938**	**-**	**-**	**27,157,141**
C1 Ordinary Shares of $^1/_{3000}$ p each	**3**	**-**	**-**	**-**	**3**
C2 Ordinary Shares of $^1/_{3000}$ p each	**6,934,419**	**-**	**-**	**92,707**	**7,027,126**
C3 Deferred Ordinary Shares of $^1/_{3000}$ p each	**1,246,818**	**-**	**-**	**(92,707)**	**1,154,111**
B1 Preferred Shares of 0.001p each	**12,953,632**	**-**	**-**	**-**	**12,953,632**
B2 Preferred Shares of 0.001p each	**33,134,441**	**-**	**-**	**130,628**	**33,265,069**
C Preferred Shares of 0.001p each	**27,524,325**	**-**	**-**	**-**	**27,524,325**
B3 Deferred Shares of 0.001p each	**5,726,456**	**-**	**-**	**(130,628)**	**5,595,828**
Additional Plan Ordinary Shares of $^1/_{3000}$ p each	**464,484**	**2,166,264**	**(4,000)**	**-**	**2,626,748**

	1 September 2017 Number	Issue of shares Number	Re-purchase of shares Number	Re-Designation Number	31 August 2018 Number
A Preferred Shares of 0.001p each	120,900,566	-	-	-	120,900,566
Ordinary Shares of $^1/_{3000}$ p each[(1)]	26,616,165	31,455	(1,417)	-	26,646,203
C1 Ordinary Shares of $^1/_{3000}$ p each	3	-	-	-	3
C2 Ordinary Shares of $^1/_{3000}$ p each	7,017,539	-	-	(83,120)	6,934,419
C3 Deferred Ordinary Shares of $^1/_{3000}$ p each	1,163,698	-	-	83,120	1,246,818
B1 Preferred Shares of 0.001p each	12,953,632	-	-	-	12,953,632
B2 Preferred Shares of 0.001p each	33,603,304	-	-	(468,863)	33,134,441
C Preferred Shares of 0.001p each	27,524,325	-	-	-	27,524,325
B3 Deferred Shares of 0.001p each	5,257,593	-	-	468,863	5,726,456
Additional Plan Ordinary shares of $^1/_{3000}$ p each	1,091,574	52,910	(680,000)	-	464,484

(1) Of the Ordinary Shares of 1/3000 p each shown in the above tables 9,088 are unvested at 31 August 2019 (2018 – 42,141).

21 Share capital and reserves (continued)

a) Share capital (continued)

The Company has authorised and issued share capital of 37,965,129 ordinary shares of 1/3000 p each..

'A Preferred' and 'C Preferred' irredeemable shares
Holders of 'A Preferred' and 'C Preferred' shares have preferential rights to receive dividends and to the assets of the Company on any liquidation or winding-up. Holders of these shares also have rights to attend and vote at general meetings of the Company.

'B Preferred', 'B1 Preferred' and 'B2 Preferred' irredeemable shares
Holders of 'B Preferred', 'B1 Preferred' and 'B2 Preferred' shares rank below holders of 'A and C Preferred' shares but above holders of all other share classes in regard to the right to receive dividends. Holders of these shares also have rights to attend and vote at general meetings of the Company.

'Ordinary', 'C1 Ordinary' and 'C2 Ordinary' shares
Holders of 'Ordinary', 'C1 Ordinary' and 'C2 Ordinary' shares rank below holders of 'A Preferred', 'B Preferred', 'C Preferred' 'B1 Preferred' and 'B2 Preferred' shares in regard to the right to receive dividends. Subject to the rights of 'A Preferred', 'C Preferred', 'B3 Deferred' and 'C3 Deferred Ordinary' shares, holders of 'Ordinary', 'C1 Ordinary' and 'C2 Ordinary' shares have the right to any remaining assets of the Company on any liquidation or winding-up. Holders of these shares also have rights to attend and vote at general meetings of the Company.

'B3 Deferred' shares
'B3 Deferred' shares are non-participating shares and holders of these shares have no right to receive dividends or to vote at general meetings of the Company. Subject to the rights attached to 'A Preferred' and 'C Preferred' shares, holders of 'B3 Deferred' shares (and also holders of 'C3 Deferred' shares) have the right to receive an amount equal to the nominal value of the shares on any liquidation or winding-up of the Company.

'C3 Deferred Ordinary' shares
'C3 Deferred Ordinary' shares are non-participating shares and holders of these shares have no right to receive dividends or to vote at general meetings of the Company. Subject to the rights attached to 'A Preferred' and 'C Preferred' shares, holders of 'C3 Deferred Ordinary' shares (and also holders of 'B3 Deferred' shares) have the right to receive an amount equal to the nominal value of the shares on any liquidation or winding-up of the Company.

Additional Plan Ordinary shares
Holders of Additional Plan Ordinary shares have the same rights to receive dividends and to vote at general meetings of the Company as holders of Ordinary shares.

Change of Control
Upon change of control, proceeds received by selling shareholders are to be allocated in accordance with the Liquidation Preferences to preferred shares first and the remaining proceeds should be distributed pari passu to ordinary shares. Upon change of control, the Group is not obligated to make any payments to any shareholders. However, if the liquidity event should result in an aggregate equity value in excess of $440.0 million, the B2 and B3 Preferred shares (which are held by the EBT) would be entitled to receive 75% of the aggregate B Preferred share liquidation preference.

Redemption upon Declared Exit
The Board of Directors has a right to declare an Exit Event for any reason. In this case, the Group must redeem A Preferred shares, C Preferred shares and B Preferred shares based on their liquidation preferences.

Conversion
Any holder of A, B or C Preferred shares may give the Group notice that the holder wishes to convert preferred shares into ordinary shares. The conversion rate will be determined by the Francisco Partner shareholder and the EBT shareholder that is determined to be fair and appropriate, taking into consideration any declared but unpaid preferred share dividend. The conversion feature has been determined to be an embedded derivative which should be bifurcated from the host instrument and accounted for as a liability as the conversion feature results in the conversion of the preferred shares into a variable number of ordinary shares. The fair value of the derivative has been determined to be nil as the conversion ratio is determined at the time of conversion based on the estimated fair value at that date.

21 Share capital and reserves (continued)

a) Share capital (continued)

Liquidation and Liquidation Preferences

On a liquidation or winding-up by the Company, the assets of the Company available to shareholders shall be applied in the following order of priority:

(A) the C Preferred Shareholders shall first be entitled to:

(i) an aggregate amount equal to US$40 million (less the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the C Preferred Shares prior to the liquidation or winding-up) to be distributed pro rata to each C Preferred Shareholder's holding of C Preferred Shares and if there are insufficient proceeds available to pay in full the US$40 million (less the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the C Preferred Shares prior to the liquidation or winding-up) to the C Preferred Shareholders, then such proceeds will be paid pro rata to the amount that would be payable to each C Preferred Shareholder if there were sufficient proceeds; and

(ii) an amount equal to any Per Share Preferred Dividend Entitlement per C Preferred Share and Per Share C Preferred General Dividend Entitlement per C Preferred Share declared but unpaid at the time of liquidation or winding-up, such payment to be made, if there are insufficient proceeds available to pay an amount equal to the entire declared but unpaid Per Share Preferred Dividend Entitlement per C Preferred Share held prior to liquidation or winding-up to all the C Preferred Shareholders, pro rata to the amounts that would be payable to each C Preferred Shareholder if there were sufficient proceeds.

(B) subject to the payment in full of all amounts referred to in (A) above:

(i) the A Preferred Shareholders shall be entitled to an amount equal to any Per Share Preferred Dividend Entitlement per A Preferred Share and Per Share A Preferred General Dividend Entitlement per A Preferred Share declared but unpaid at the time of liquidation or winding-up, such payment to be made, if there are insufficient proceeds available to pay an amount equal to the entire declared but unpaid Per Share Preferred Dividend Entitlement per A Preferred Share held prior to liquidation or winding-up to all the A Preferred Shareholders, pro rata to the amounts that would be payable to each A Preferred Shareholder if there were sufficient proceeds;

(ii) if the remaining proceeds of liquidation or winding-up plus the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the A Preferred Shares and any of the B Preferred Shares prior to the liquidation or winding-up are equal to or greater than US$251 million:

   (a) the A Preferred Shareholders shall be entitled to an aggregate amount of US$175.7 million less the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the A Preferred Shares prior to the liquidation or winding-up, to be distributed pro rata to each A Preferred Shareholder's holding of A Preferred Shares; and

   (b) the B Preferred Shareholders shall be entitled to an aggregate amount of US$75.3 million less the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the B Preferred Shares prior to the liquidation or winding-up, to be distributed pro rata to each B Preferred Shareholder's holding of B Preferred Shares; or

(iii) if the remaining proceeds of liquidation or winding-up plus the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the A Preferred Shares and any of the B Preferred Shares prior to the liquidation or winding-up are less than US$251 million:

   (a) the A Preferred Shareholders shall be entitled to an aggregate amount equal to 70% of the Liquidation Return Amount, less the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the A Preferred Shares prior to the liquidation or winding-up to be distributed pro rata to each A Preferred Shareholder's holding of A Preferred Shares; and

   (b) the B Preferred Shareholders shall be entitled to an aggregate amount equal to 30% of the Liquidation Return Amount, less the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the B Preferred Shares prior to the liquidation or winding-up to be distributed pro rata to each B Preferred Shareholder's holding of B Preferred Shares; and

21 Share capital and reserves (continued)

a) Share capital (continued)

(C) subject to the payment of any amounts referred to in (B) above, the Ordinary Shareholders and the C Preferred Shareholders shall be entitled to the remaining proceeds of liquidation or winding-up, of which:

(i) the Participation Percentage Amount shall be distributed to the C Preferred Shareholders, pro rata to each C Preferred Shareholder's holding of C Preferred Shares; and

(ii) the balance shall be distributed to the Ordinary Shareholders, pro rata to each Ordinary Shareholder's holding of Ordinary Shares.

In the event of a liquidation or winding-up of the Company in respect of which the payment to the C Preferred Shareholders would be equal to or more than US$30 million, then the following applies:

(i) the C Preferred Shareholders shall be entitled to receive an aggregate amount equal to the greater of: (i) C Preferred Shareholders' Ownership Interest in the Company multiplied by the proceeds of liquidation or winding up and (ii) US$70 million, in each case less the aggregate of any amounts paid by way of Per Share Preferential Dividend on any of the C Preferred Shares prior to the liquidation or winding-up, such amount to be distributed pro rata to each C Preferred Shareholder's holding of C Preferred Shares, plus in each case an amount equal to any Per Share Preferred Dividend Entitlement per C Preferred Share and any Per Share C Preferred General Dividend Entitlement per C Preferred Share declared but unpaid at the time of liquidation or winding-up; and

(ii) the remaining proceeds of the liquidation or winding-up received by Shareholders shall be applied in accordance with the preceding notes, except that no amounts from such remaining proceeds of liquidation or winding-up shall be payable to the C Preferred Shareholders.

b) Reserves

The share premium account represents the difference between the issue price and the nominal value of shares issued.

The capital redemption reserve reflects the repurchase of D and S ordinary shares on 10 January 2008 from reserves. The capital redemption reserve is not distributable.

The available for sale reserve represents the cumulative gain or loss on available for sale investments.

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the reporting currency of the Group.

Retained earnings represent total income and expense in the current and prior years attributable to shareholders, less cumulative dividends to shareholders.

22 Share-based payments

a) Company Share Plan – share awards

The Company operates a share plan to allow employees to participate in an ownership interest in the Group.

The movements in the number of shares awarded under the plan are as follows:

	2019			2018		
	Date of award / repurchase	**Number of Ordinary Shares of $^{1}/_{3000}$ p each**	**Weighted average price per share ($)**	**Date of award / repurchase**	**Number of Ordinary Shares of $^{1}/_{3000}$ p each**	**Weighted average price per share ($)**
At beginning of the year		**8,090,666**	**-**		8,060,628	-
Awarded during the year	**01/09/18**	2,910	**1.51**	06/10/17	1,590	4.83
	01/09/18	2,343	**3.26**	06/10/17	4,050	3.26
	01/09/18	1,875	**1.51**	13/12/17	2,025	3.26
	18/01/19	3,540	**3.26**	19/12/17	3,000	3.26
	31/01/19	1,000	**2.93**	07/03/18	4,050	1.30
	13/02/19	7,500	**1.51**	08/03/18	1,000	2.81
	13/02/19	6,750	**1.51**	21/03/18	4,050	1.82
	08/03/19	4,050	**1.51**	22/03/18	4,050	1.30
	17/04/19	10,500	**1.51**	18/05/18	2,290	1.51
	28/06/19	7,500	**4.83**	06/03/18	4,050	3.26
	16/08/19	4,050	**1.30**	09/07/18	1,300	2.53
	31/08/19	417,000	**1.51**	-	-	-
	31/08/19	41,920	**1.30**	-	-	-
		510,938			31,455	
Repurchased during the year	**18/10/18**	**(4,000)**		31/05/18	(1,417)	
		506,938			30,038	
At the end of the year		**8,597,604**			8,090,666	
Less shares not vested at year end		**(9,088)**			(42,141)	
		8,588,516			8,048,525	

No charge has been booked in respect of the above shares for the year under the requirements of IFRS2 "Share-based payments" for equity settled share schemes as the Group has received cash from Directors and employees equivalent to the estimated fair value of the shares on issuance.

22 Share-based payments (continued)

b) Company Share Plan – option awards

As described in note 21(a), the Company awards share options under the Company Share Plan. The Group's accounting policy for these equity-settled share-based payments is described in note 1.21. The underlying shares relating to the Options are all issued unvested and vest over a four year period. 25% of the shares under option vest after one year with the remainder vesting evenly (monthly) over the remaining three year period. Options over vested shares are exercisable by the Award holder at any time. Options over unvested shares may be exercised in whole or in part at any time only with the agreement of the Company. The movements in the number of options awarded are:

	2019			**2018**		
	Date of award / repurchase	**Number of Ordinary Shares of 1/3000 p each**	**Weighted average option price per share ($)**	**Date of award / repurchase**	**Number of Ordinary Shares of 1/3000 p each**	**Weighted average option price per share ($)**
At beginning of the year		**8,212,517**	**1.64**		2,269,612	2.48
Awarded during the year	**24/10/18**	**86,250**	**1.51**	30/09/17	75,000	1.51
	15/01/19	**302,050**	**1.51**	31/10/17	1,531,500	1.51
	31/01/19	**14,931**	**0.59**	20/03/18	273,200	1.51
	06/02/19	**68,000**	**1.51**	23/04/18	188,090	1.51
	05/04/19	**93,250**	**1.69**	27/07/18	1,877,100	1.51
	09/07/19	**39,800**	**1.69**	10/08/18	4,347,258	1.51
		604,281			8,292,148	
Exercised during the year	**22/11/18**	**(1,875)**	**1.51**	06/10/17	(4,050)	3.26
	10/01/19	**(2,587,258)**	**1.51**	19/12/17	(5,025)	3.26
	18/01/19	**(4,593)**	**3.26**	22/03/18	(18,200)	2.04
	13/02/19	**(14,250)**	**1.51**	18/05/18	(2,290)	1.51
	17/04/19	**(14,550)**	**1.51**	27/07/18	(3,643)	3.00
	16/06/19	**(7,500)**	**4.83**	20/08/18	(2,910)	1.51
	16/08/19	**(4,050)**	**1.30**			
		(2,634,076)			(36,118)	
Forfeited during the year	**30/09/18**	**(22,910)**	**3.11**	22/09/17	(17,050)	4.46
	25/10/18	**(9,737)**	**3.21**	20/10/17	(10,000)	1.82
	08/11/18	**(2,869)**	**3.60**	27/11/17	(56,700)	3.17
	31/12/18	**(51,140)**	**2.78**	31/12/17	(35,550)	2.11
	31/01/19	**(234,867)**	**1.80**	19/01/18	(17,150)	3.15
	25/02/19	**(51,678)**	**1.86**	21/02/18	(14,550)	3.24
	31/03/19	**(47,135)**	**1.90**	29/03/18	(99,650)	3.03
	25/04/19	**(40,593)**	**4.68**	27/04/18	(9,525)	2.75
	31/05/19	**(44,282)**	**2.75**	31/05/18	(14,250)	3.55
	29/06/19	**(30,822)**	**1.94**	29/06/18	(12,150)	3.65
	18/07/19	**(8,490)**	**3.59**	20/07/18	(1,520,500)	0.75
	29/08/19	**(16,190)**	**2.61**	10/08/18	(506,050)	1.52
		(560,713)			(2,313,125)	
Total options outstanding at end of the year		**5,622,009**	**2.01**		8,212,517	1.64

There were $nil options exercisable over unvested and vested shares as at 31 August 2019 (2018 - nil). The weighted average share price of options exercised, forfeited and outstanding during the year was $1.69 (2018 - $1.51).

22 Share-based payments (continued)

b) Company Share Plan – option awards (continued)

Details of the share options outstanding at the end of the year are as follows:

		Number of Ordinary shares of 1/3000 p each	
Date of grant	Option price per share ($)	2019	2018
2011	1.30	**24,100**	28,150
2012	1.30 – 2.37	**202,593**	244,513
2013	1.30 – 1.42	**36,076**	38,076
2014	1.80 – 2.53	**243,700**	273,600
2015	0.62 – 4.83	**215,990**	263,394
2016	2.93 - 4.83	**271,050**	336,300
2017	2.93 - 3.26	**876,996**	119,550
2018	1.51	**3,288,404**	6,908,934
15/01/19	1.51	**262,050**	-
04/02/19	1.51	**53,000**	-
06/02/19	1.51	**15,000**	-
05/04/19	1.69	**93,250**	-
09/07/19	1.69	**39,800**	-
		5,622,009	8,212,517

For the share options outstanding at the end of the year the weighted average remaining contractual life is three years (2018 – three years).

22 Share-based payments (continued)

b) Company Share Plan – option awards (continued)

The fair value of options granted during the current and prior year was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Grant date	Option price per share ($)	Exercise price per share ($)	Expected volatility	Expected life (years)	Risk free rate	Expected dividend yield
01/09/2017	1.51	0.59	43.5%	6.25	1.88%	0%
13/10/2017	1.51	0.59	43.2%	6.25	2.03%	0%
24/10/2017	1.51	3.26	40.3%	5.73	2.12%	0%
15/03/2018	1.51	1.51	39.7%	5.85	2.66%	0%
16/03/2018	1.51	1.51	39.7%	5.85	2.69%	0%
19/03/2018	1.51	1.51	39.6%	5.81	2.68%	0%
20/03/2018	1.51	1.51	39.6%	5.84	2.73%	0%
03/04/2018	1.51	1.51	39.4%	5.80	2.63%	0%
06/04/2018	1.51	1.51	37.6%	5.01	2.56%	0%
23/04/2018	1.51	1.51	39.5%	5.92	2.86%	0%
20/07/2018	1.51	1.51	39.3%	6.25	2.80%	0%
25/07/2018	1.51	1.51	38.2%	5.96	2.84%	0%
27/07/2018	1.51	1.51	39.3%	6.25	2.87%	0%
08/08/2018	1.51	1.51	39.1%	6.25	2.87%	0%
10/08/2018	1.51	1.51	39.0%	6.25	2.77%	0%
24/10/2018	1.51	1.51	37.4%	5.94	2.96%	0%
15/01/2019	1.51	1.51	37.4%	5.26	2.52%	0%
31/01/2019	1.51	0.59	38.0%	6.25	2.46%	0%
04/02/2019	1.69	1.51	37.7%	5.88	2.55%	0%
06/02/2019	1.69	1.51	37.7%	5.51	2.51%	0%
05/04/2019	1.69	1.69	37.7%	5.96	2.34%	0%
09/07/2019	1.69	1.69	37.7%	5.94	1.91%	0%

The Group has recognised a share-based payment charge of $0.5m (2018 - $0.9m) during the year in respect of the above share options. In addition, warrants were issued to a customer and a fair value charge of $0.4m (2018 - $0.9m) has been deducted from revenue during the year.

23 Operating leases

Outstanding commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	2019 $'000	2018 $'000
Not later than one year	**1,552**	1,958
Later than one year and not later than five years	**11,048**	3,092
Later than five years	**20,198**	1,491
	32,798	6,541

Operating lease payments substantially represent rentals payable by the Group for office properties. The above includes the operating lease commitments under the lease signed during the year ended 31 August 2019 for the new UK headquarters.

24 Staff costs

	2019 $'000	2018 $'000
Wages and salaries	**81,875**	82,994
Social security costs	**7,878**	7,888
Pension costs (see note 7)	**5,475**	5,405
	95,228	96,287

Employee numbers

The average monthly number of full-time equivalent employees (including directors) during the year was:

	2019 Number	2018 Number
Production, support and services	**273**	276
Sales & marketing	**127**	131
Research & development	**329**	296
Administration	**111**	109
	840	812

25 Related party transactions

Name of related party	Expenses during 2019 $'000	Amounts payable at 31 August 2019 $'000	Expenses during 2018	Amounts payable at 31 August 2018
Data Connection Second Employee Benefit Trust	-	**2,548**	3,156	5,837

Of the amount due of $2.5m (2018 - $5.8m) to Data Connection Second Employee Benefit Trust, $2.5m (2018 - $2.6m) is in relation to loans granted to employees of the Group for the purchase of shares held by the Employee Benefit Trust and $nil (2018 - $3.2m) represents the EBT tax saving payment.

a) Other transactions

Administrative fees of $5,600 (2018 - $4,600) were charged to the company by the Data Connection Second Employee Benefit Trust.

During the year the company incurred $150,000 (2018 - $283,000) of consultancy fees payable to Francisco Partners a shareholder of DC HoldCo SARL.

b) Compensation of key management personnel

The key management personnel of the Group comprise the Chairman, Executive Directors, Non-Executive Directors and the Chief Financial Officer. The compensation of key management personnel is set out below in aggregate.

	2019 $'000	2018 $'000
Wages and salaries	**1,935**	1,330
Share based payment expense	**46**	187
Pension costs	**57**	53
	2,038	1,570

25 Related party transactions (continued)

Included in the above is Directors' remuneration of $1,151,000 (2018 - $924,000), of which $29,000 (2018 - $27,000) relates to pension costs for one director. The highest paid director in the year received remuneration of $1,090,000 (2018 - $614,000) and pension costs of $29,000 (2018 - $27,000). The highest paid director did exercise share options during the year. Included in other receivables (note 15) is a loan due from a director of $4.9m (2018 - $1.6m) and a loan due from key management personnel of $54,000 (2018 - $nil). Both loans are in respect of the purchase of shares in the company. No shares were received or receivable by that director in respect of qualifying services under any long term incentive scheme.

The amounts included under compensation of key management personnel do not include any payments on behalf of the Employee Benefit Trust, which are at the discretion of the trustees, over the long term.

26 Subsidiaries

The Group has the following investments in wholly-owned subsidiaries, which are 100% held directly by Metaswitch Networks Ltd through ordinary shareholdings unless otherwise stated.

All subsidiaries have a 31 August reporting date unless otherwise indicated.

Name	Nature of business	Country of incorporation and registration	Registered office address
Metaswitch Networks Corporation	Sales and marketing support to the parent company	USA	11600 Sunrise Valley Drive, Reston, VA 20191, USA
Metaswitch Networks Service Broker Technology Corporation (1)	Sales and marketing support to the parent company	USA	11600 Sunrise Valley Drive, Reston, VA 20191, USA
Metaswitch Networks S.A.R.L.	Sales and marketing support to the parent company	France	15 Rue Taitbout, 75009, Paris, France
Metaswitch Networks Spain S.L.	Dormant	Spain	C/Bilbao 35 Madrid, Arroyomolinos, Spain 28939
Metaswitch Networks A.S.	Dormant	Norway	Strandveien, 1366 Lysaker, Baerum, Norway
Metaswitch Networks Pty Ltd	Sales and marketing support to the parent company	Australia	Level 10, Tower 4, World Trade Centre 611 Flinders Street Melbourne Victoria 300
Metaswitch (Thailand) Ltd	Sales and marketing support to the parent company	Thailand	90/40-41 Sathorn Thani Building 1, 15 Floor, North Sathorn Road, Silom Sub-district, Bangrak District, Bangkok Metropolis, Thailand
Metaswitch Networks Ltd Mexico (5)	Sales and marketing support to the parent company	Mexico	Edificio Terret Blvd. Miguel de Cervantes Saavedra 301, Torre Sur. Piso 14, Col. Granada, Mexico City 11520, Mexico

26 Subsidiaries (continued)

Open Cloud (NZ) Limited[(3)]	Software development and information technology services	New Zealand	Level 5, Sovereign House, 34 Manners Street, PO Box 19210, Wellington 6149, New Zealand
Open Cloud Spain S.L [(3)]	Software development and information technology services	Spain	c/o Juan Bravo No 3-A, 28006, Madrid, Spain
Open Cloud Inc [(4)]	Dormant	USA	350 Bay Street, #224, San Francisco, CA 94113, USA
Open Cloud Japan Limited [(4)]	Dormant	Japan	8-1 Minami-Aoyama, 7-Chrome, Minato-ku, Tokyo, Japan
Open Cloud Brasil Servicos em Technologia da Informacao Ltda [(2)] [(3)]	Dormant	Brazil	Na Av. Bernardino de Campos, 98, Sobreloja, Sala 23, Paraiso, CEP 04004-040
Metaswitch Networks Indonesia[(2)] [(4)]	Software development and information technology services	Indonesia	Menara Kadin Indonesia, Level 30 Jalan H.R.Rasuna Said Kav 2-3, Block X-5 Kav. 2-3, 12950 Jakarta, Indonesia.
Metaswitch Networks Malaysia Sdn.Bhd.	Administrative and support to the parent company	Malaysia	Unit 3201, Level 32, Tower B, The Vertical Corporate Towers, Avenue 10, Bangsa, No. 8 Jalan Kerinchi, Kuala Lumpur, 59200, Malaysia
Metaswitch Networks Taiwan Co.Ltd	Dormant	Taiwan	11F No. 963 Zhongzheng Road, New Taipei City 235, Taiwan ROC

(1) Held by Metaswitch Networks Corporation.
(2) Held by Open Cloud UK Limited
(3) 31 December reporting date
(4) 30 June reporting date, formerly PT Open Cloud Indonesia
(5) Held by Metatswitch Networks Limited 19,999 shares, and Metaswitch Networks Corporation 1 share.

In addition the Company has two branches in Hong Kong and Singapore. The branches provide sales and marketing services to the Company.

27 Financial instruments

a) Carrying amounts and fair values of financial assets and liabilities

Set out below is a comparison by category of the carrying amounts and fair values of all the Group's financial assets and liabilities. Financial assets and liabilities classified as loans and receivables continue to be held measured at amortised cost under IFRS 9.

	2019		2018	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial assets				
Financial assets held at amortised cost:				
Cash and cash equivalents	**17,142**	**17,142**	11,102	11,102
Trade and other receivables	**45,421**	**45,421**	51,033	51,033
Contract assets	**8,402**	**8,402**	4,084	4,084
Restricted cash	**-**	**-**	11,269	11,269
Total financial assets held at amortised cost	**70,965**	**70,965**	77,488	77,488
At fair value through profit and loss:				
Derivative financial assets – held for trading	**82**	**82**	-	-
Total financial assets held at fair value through profit and loss	**82**	**82**	-	-
Available for sale investment	**-**	**-**	11,567	11,567
Total available for sale investments	**-**	**-**	11,567	11,567
Total financial assets	**71,047**	**71,047**	89,055	89,055

27 Financial instruments (continued)

a) Carrying amounts and fair values of financial assets and liabilities

	2019		2018	
	Carrying amount $'000	**Fair value $'000**	**Carrying amount $'000**	**Fair value $'000**
Financial liabilities				
Financial liabilities held at amortised cost:				
Bank loans, overdrafts and other loans	**68,942**	**68,942**	57,656	57,656
Trade and other payables	**34,017**	**34,017**	27,085	27,085
Contract liabilities	**61,016**	**61,016**	63,891	63,891
Total financial liabilities held at amortised cost	**163,975**	**163,975**	148,632	148,632
At fair value through profit and loss:				
Derivative financial liabilities – held for trading	**999**	**999**	813	813
Total financial liabilities held at fair value through profit and loss	**999**	**999**	813	813
Total financial liabilities	**164,974**	**164,974**	149,445	149,445

The following assumptions have been made in estimating the fair values of financial assets and liabilities:

(1) Due to their short maturities, the fair values of trade receivables, other receivables, contract costs and contract assets have been stated at their carrying amounts.

(2) The fair values of derivative financial instruments are discussed in note 27(b) which follows.

(3) Due to their short maturities, the fair values of trade payables, other payables and contract liabilities have been stated at their carrying amounts.

b) Derivatives and fair value hierarchy

It is the Group's policy to hedge a portion of its foreign currency exposures using forward exchange contracts.

The Group is required to analyse its financial instruments that are measured subsequent to initial recognition at fair value, and to classify them into Levels 1 to 3 based on the degree to which the fair value is observable. The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - derived from valuation techniques that include inputs for the asset or liability that is not based on observable market data (unobservable inputs).

27 Financial instruments (continued)

b) Derivatives and fair value hierarchy (continued)

The following financial instruments are required to be measured at fair value.

Foreign currency forward exchange contracts

These contracts are measured by reference to third party bank confirmations and valuations and are designated as Level 2 (2018 – Level 2). There were no transfers between the levels during the years ended 31 August 2019 or 31 August 2018.

c) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maintaining the cost of funding at an appropriate level. The Group also manages its capital structure in a way which allows it to apply its policy of 'tax saving' as described in note 1.16. The Group monitors its future working capital requirements and considers the potential need to raise additional funds. The objectives, policies and processes for managing capital have not changed from the previous year.

The capital structure of the Group is presented in the consolidated statement of financial position. Refer to note 21 for details on equity and note 17 for borrowings.

The Group's borrowings are managed according to a facility agreement between the Company and its principal bankers. This agreement contains externally imposed capital requirements ('covenants') which were complied with throughout the year.

d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to changes in interest rates and foreign exchange rates.

i) **Interest rate risk**

As described in note 27(c) the Group finances its operations and acquisitions using a combination of capital sources including bank loans.

The bank loans are floating rate instruments bearing interest rates fixed in advance for various time periods up to three months by reference to official market rates e.g. LIBOR as follows:

The applicable interest rates are LIBOR +3.0% + mandatory costs for the multi-currency revolver facility and term loan Facility A, LIBOR +3.5% for the term loan Facility B, and bank base + 2.5% for the overdraft facility. The Group does not currently hedge this exposure.

Sensitivity analysis

The interest rate sensitivity analyses below have been determined based on the exposure to interest rates for financial liabilities at the reporting date. The table below demonstrates the sensitivity to a 1% change in the major currencies interest rate, with all other variables kept constant. The 1% represents management's assessment of the reasonably possible change in interest rates.

	2019	**2018**
	$'000	**$'000**
Impact on profit before tax – gain/(loss):		
Interest rates +1%	**(614)**	(591)
Interest rates -1%	**614**	591

27 Financial instruments (continued)

d) Market risk (continued)

ii) Foreign currency risk

The Group operates worldwide which exposes it to foreign currency exchange risks arising from the settlement of foreign currency transactions and from the translation of the monetary assets and liabilities of overseas subsidiaries which are not denominated in the functional currency of the subsidiary concerned.

The Group uses forward currency contracts to economically hedge transaction exposures arising from sales and purchases made in a currency other than the functional currency of the subsidiary concerned.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities by currency at the reporting date are:

	Assets		Liabilities	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Sterling	**15,669**	9,162	**(13,712)**	(12,124)
Euro	**731**	1,991	**(829)**	(1,002)
New Zealand Dollars	**1,211**	289	**(1,360)**	(512)
Australian Dollars	**605**	308	**(118)**	(161)
Indonesian Rupiah	**702**	722	**(233)**	(138)
Others	**1,458**	1,230	**(645)**	(633)
	20,376	13,702	**(16,897)**	(14,570)

Sensitivity analysis

The following sensitivity analysis shows the impact of currency translation exposures arising from monetary assets and liabilities of the Group that are not denominated in the functional currencies of Metaswitch Networks Ltd or of its subsidiaries. It shows the impact on the Group's consolidated income statement by changing the year end exchange rate of US dollar against all other currencies.

The impacts on profit before tax of a 10% strengthening and a 10% weakening of the US dollar are as follows:

	2019 $'000	**2018 $'000**
10% strengthening of US dollar	**348**	87
10% weakening of US dollar	**(348)**	(87)

At 31 August 2019 the Company had in place forward contracts to exchange $27.3m (2018 - $18.6m) for £21.6m (2018 - £13.7m). These contracts were established to protect the potential future exposure of the Company to changes in the US Dollar to Sterling exchange rate. In view of this, the Directors consider the likelihood of a change in exchange rates impacting profits to the extent shown in the above sensitivity analysis to be low. The Group does not enter into speculative derivative contracts.

27 Financial instruments (continued)

e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The immediate credit exposure of financial instruments is represented by those financial instruments that have a net positive fair value by counterparty. The Group considers its maximum exposure to credit risk is as follows:

	2019 $'000	2018 $'000
Cash and cash equivalents	**17,142**	11,102
Trade and other receivables	**45,421**	51,033
Contract assets	**8,402**	4,084
Derivative financial assets	**82**	-
Available for sale investment	-	11,567
Restricted cash	-	11,269
	71,047	89,055

The credit risk on cash and derivative financial assets is low because they are held with highly rated financial institutions. The Group's credit risk is primarily attributable to trade receivables, other receivables, contract costs and contract assets. The amounts presented above are net of allowances for doubtful recoverability and foreseeable losses. The Group has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The largest trade receivable at 31 August 2019 was for $2.6m (2018 - $2.9m). The Group's policy is to ensure that credit trade customers are subject to credit verification procedures so that the Group is exposed to minimum levels of bad debts.

Trade receivables are typically on 30 - 45 days credit terms although in certain cases a schedule of payments has been agreed. Interest may be charged on outstanding balances that are more than 30 days overdue but at 31 August 2019 and 2018 the trade receivables are non-interest bearing. Credit approvals and other monitoring procedures are in place to ensure follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each trade debt on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

27 Financial instruments (continued)

e) Credit risk (continued)

The table below details the credit quality of the Group's financial assets:

	Note	Internal credit rating	12 month or lifetime ECL?	Gross carrying amount $'000	Loss allowance $'000	Net carrying amount $'000
Loans to related parties	25	N/A	Lifetime ECL (not credit impaired)	2,548	-	2,548
Trade receivables	15	As below	Lifetime ECL (simplified approach)	33,324	776	32,548
Contract assets	3	As below	Lifetime ECL (simplified approach)	8,590	188	8,402

Trade receivables are carried on the statement of financial position net of provisions estimated by the Directors based on prior year experience and an evaluation of prevailing economic conditions. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the payment terms. The expected loss rates are based on the payment profile of sales over the period 1 September 2017 - 31 August 2018 and the corresponding historical credit losses experienced within this period. On that basis, no loss allowance as at 31 August 2019 and 1 September 2018 (on adoption of IFRS 9) was determined other than the provision for bad debts for trade receivables.

The table below shows the movements in the provision for bad and doubtful receivables:

	2019 $'000	2018 $'000
At start of the year	**457**	614
Amounts provided for during the year	**319**	-
Provision written back	-	(6)
Utilisation	-	(151)
At end of the year	**776**	457

The ageing of the individually impaired trade receivables is as follows:

	2019 $'000	2018 $'000
120 + days past due	**776**	457
At 31 August	**776**	457

27 Financial instruments (continued)

e) Credit risk (continued)

Ageing of trade receivables (excluding those which have an expected credit loss provision) are as follows:

	2019 $'000	**2018 $'000**
Not past due	**30,768**	36,285
1 – 30 days past due	**763**	3,459
31 – 60 days past due	**593**	261
61 – 90 days past due	**28**	122
91 – 120 days past due	**352**	376
120+ days past due	**44**	952
	32,548	41,455

The Directors consider that the carrying amount of receivables approximates their fair value.

f) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation. The Group has net current liabilities of $19.8m (2018 - $17.1m) which includes $52.2m (2018 - $57.1m) of deferred revenue (included in contract liabilities on the consolidated statement of financial position). Excluding deferred revenue the Group has net current assets of $32.4m (2018 - $40.0m).

The Group uses monthly cash-flow forecasts to monitor cash requirements and to optimise its return on investments.

27 Financial instruments (continued)

g) Contractual cash flows

The table below summarises the maturity profile of the Group's undiscounted cash flows of the financial liabilities and the earliest date on which the Group is required to pay:

2019	Due within 1 year $'000	Due between 1 and 2 years $'000	Due between 2 and 5 years $'000	Total $'000
Non-derivative financial liabilities				
Bank, shareholder and other loans	**3,750**	**20,750**	**45,000**	**69,500**
Trade and other payables	**35,761**	**9,180**	**8,840**	**53,781**
Contract liabilities	**61,016**	-	-	**61,016**
Derivative financial liabilities	**999**	-	-	**999**
Total financial liabilities	**101,526**	**29,930**	**53,840**	**185,296**

2018	Due within 1 year $'000	Due between 1 and 2 years $'000	Due between 2 and 5 years $'000	Total $'000
Non-derivative financial liabilities				
Bank, shareholder and other loans	3,000	3,750	51,750	58,500
Trade and other payables	27,085	-	-	27,085
Contract liabilities	63,891	-	-	63,891
Derivative financial liabilities	813	-	-	813
Total financial liabilities	94,789	3,750	51,750	150,289

h) Borrowing facilities

The Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses.

Details of the facilities available to the group are shown in note 17.

28 Ultimate controlling party

The Directors regard DC Holdco SARL, registered address 412F, route d'Esch, L-2086, Luxembourg, to be the ultimate and immediate controlling party of the Group and Company.

Metaswitch Networks Ltd is the parent company of the largest and smallest Group of which the Company is a member and for which Group financial statements are drawn up.

METASWITCH NETWORKS LTD
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2019

	Notes	31 August 2019 $'000	31 August 2018 $'000
Non-current assets			
Goodwill	5	**3,026**	3,026
Intangible assets	6	**7,823**	7,449
Property, plant and equipment	7	**4,387**	10,134
Investments	8	**1,042**	1,042
Non-current tax		**1,721**	532
Available for sale investment	9	**-**	11,567
Deferred tax assets	10	**15,937**	14,032
		33,936	47,782
Current assets			
Inventories	11	**919**	1,168
Trade and other receivables	12	**47,326**	55,614
Contract costs	3	**3,575**	4,408
Contract assets	3	**8,339**	4,084
Derivative assets	21	**82**	-
Cash and cash equivalents		**16,091**	9,014
Restricted cash		**-**	11,269
		76,332	85,557
Total assets		**110,268**	133,339
Current liabilities			
Trade and other payables	13	**29,492**	22,454
Contract liabilities	3	**58,631**	62,007
Borrowings	14	**3,750**	3,000
Provisions	15	**400**	10,274
Current tax liabilities		**1,170**	165
Derivative liabilities	21	**999**	813
		94,442	98,713
Non-current liabilities			
Borrowings	14	**65,192**	54,656
Other payables	16	**16,354**	-
		81,546	54,656
Total liabilities		**175,988**	153,369
Net liabilities		**(65,720)**	(20,030)

METASWITCH NETWORKS LTD
COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 AUGUST 2019

	Notes	31 August 2019 $'000	31 August 2018 $'000
Equity			
Share capital	17	3	3
Share premium	17	25,817	25,148
Capital redemption reserve	17	17	17
Available for sale reserve	17	-	5,347
Retained earnings	17	(91,387)	(50,500)
Translation reserve	17	(170)	(45)
		(65,720)	(20,030)

The loss of the Company for the financial year amounted to $47.1 million (2018 – profit $5.2 million). As permitted by section 408 of the Companies Act 2006, the Parent Company's Income Statement prepared under IFRS has not been included in these financial statements.

Approved by the Board and authorised for issue on 18 December 2019

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Martin Lund
Chief Executive Officer

Company Registration No. 01578918

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2019

	Year ended 31 August 2019 $'000	Year ended 31 August 2018 $'000
(Loss)/profit for the year	(47,105)	5,170
Items that will be classified to profit and loss:		
Change in fair value of available for sale investment	-	6,602
Tax on items that will be reclassified	-	(1,255)
Foreign exchange translations	(125)	(86)
Total items that will be classified to profit and loss	(125)	5,261
Total comprehensive (loss)/profit for the year	(47,230)	10,431

METASWITCH NETWORKS LTD
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2019

	Share capital	*Share premium*	Capital redemption reserve	Available for sale reserve	Translation *reserve*	Retained earnings	Total equity
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Equity at 1 September 2017	3	24,416	17	-	41	(57,473)	(32,996)
Profit for the year	-	-	-	-	-	5,170	5,170
Other comprehensive income for the year	-	-	-	6,602	(86)	-	6,516
Tax relating to components of other comprehensive income	-	-	-	(1,255)	-	-	(1,255)
Total comprehensive income for the year	-	-	-	5,347	(86)	5,170	10,431
Issue of share capital	-	106	-	-	-	-	106
Own shares acquired	-	-	-	-	-	(11)	(11)
Transfer from liabilities	-	626	-	-	-	-	626
Equity-settled share-based payments	-	-	-	-	-	1,814	1,814
Equity at 1 September 2018	3	25,148	17	5,347	(45)	(50,500)	(20,030)

	Share capital	Share premium	Capital redemption reserve	Available for sale reserve	Translation reserve	Retained earnings	Total equity
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Equity at 1 September 2018	**3**	**25,148**	**17**	**5,347**	**(45)**	**(50,500)**	**(20,030)**
Transfer on adoption of IFRS 9	-	-	-	(5,347)	-	5,347	-
Loss for the year	-	-	-	-	-	(47,105)	(47,105)
Other comprehensive income for the year	-	-	-	-	(125)	-	(125)
Total comprehensive loss for the year				-	(125)	(47,105)	(47,230)
Issue of share capital	-	51	-	-	-	-	51
Own shares acquired	-	-	-	-	-	(10)	(10)
Transfer from liabilities	-	618	-	-	-	-	618
Equity-settled share-based payments	-	-	-	-	-	881	881
Equity at 31 August 2019	**3**	**25,817**	**17**	**-**	**(170)**	**(91,387)**	**(65,720)**

METASWITCH NETWORKS LTD
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2019

	Notes	Year ended 31 August 2019 $'000	Year ended 31 August 2018 $'000
Cash flows from operating activities			
(Loss)/profit for the year – attributable to owners of the Company		**(47,105)**	5,170
Adjustments for:			
Tax (credit)/charge		**(850)**	462
Finance expenses		**4,214**	3,719
Finance income		**(341)**	(83)
(Profit)/loss on disposal of property, plant and equipment		**(527)**	6
Depreciation and amortisation		**3,869**	3,260
Revaluation of derivative financial instruments		**103**	1,005
Share-based payment expense		**881**	1,814
Waiver of Open Cloud Limited intercompany receivable		**-**	3,116
Operating cash (outflow)/inflow before movements in working capital and provisions		**(39,756)**	18,469
Legal settlement charge		**51,404**	-
Legal settlement payments		**(26,300)**	(11,200)
Decrease in provisions		**(190)**	(316)
Decrease/(increase) in inventories		**249**	(183)
Decrease/(increase) in trade and other receivables		**7,828**	(3,760)
Increase in contract costs and assets		**(3,422)**	(193)
Increase/(decrease) in trade and other payables		**497**	(3,570)
(Decrease)/increase in contract liabilities		**(3,376)**	5,463
Cash (used in)/generated from operations		**(13,066)**	4,710
Interest paid		**(3,941)**	(3,064)
Interest received		**341**	83
Income taxes paid		**(774)**	(552)
Net cash (used in)/generated from operating activities		**(17,440)**	1,177
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,237)**	(1,539)
Purchase of intangible assets		**(2,613)**	(1,331)
Proceeds on disposal of available for sale investment		**11,567**	-
Proceeds on disposal of freehold land and buildings		**6,800**	-
Acquisition of business		**-**	(2,722)
Acquisition of trade and assets		**-**	862
Net cash generated from/(used in) investing activities		**13,517**	(4,730)
Cash flows from financing activities			
Issue of ordinary share capital		**-**	106
Repurchase of share capital		**-**	(11)
Proceeds from borrowings	14	**14,000**	-
Repayment of borrowings	14	**(3,000)**	(4,408)
Net cash (used in)/generated from financing activities		**11,000**	(4,313)
Increase/(decrease) in cash and cash equivalents		**7,077**	(7,866)
Cash and cash equivalents at beginning of the year		**9,014**	16,880
Cash and cash equivalents at end of the year		**16,091**	9,014

1 Accounting policies

1.1 General information

Metaswitch Networks Ltd is a Company incorporated in England and Wales under the Companies Act 2006. The principal activities of the Company are described in the Strategic Report. The address of the registered office is given on page 18. The financial statements were authorised for issue by the Directors on 18 December 2019. The financial statements are presented in US dollars because that is the currency of the primary economic environment in which the Company operates.

1.2 Basis of preparation

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. The principal accounting policies adopted are the same as those set out in note 1 of the consolidated financial statements except as noted below. They have all been applied consistently throughout the year and the preceding year.

1.3 Foreign currency translation

Transactions in currencies other than the functional currency of the Company are recorded at an exchange rate for the year that is a function of the prevailing exchange rate and existing exchange contracts for the year.

Exchange differences arising on settlement of monetary items, and on retranslation of monetary items are included in the profit or loss for the period.

Monetary assets and liabilities denominated in foreign currencies at the year end are translated into US dollars at the rate of exchange prevailing at that date.

Any gains or losses on exchange are treated as arising from the ordinary course of business.

1.4 Business combinations

The Company has adopted the Group accounting policy for business combinations as set out in note 1.7 to the consolidated financial statements.

1.5 Goodwill

The Company has adopted the Group accounting policy for goodwill as set out in note 1.8 to the consolidated financial statements.

1.6 Intangible assets

i) Separately acquired intangible assets

The Company has adopted the Group accounting policy for separately acquired intangible assets as set out in note 1.9 (a) to the consolidated financial statements.

ii) Research and development

The Company has adopted the Group accounting policy for research and development as set out in note 1.9 (b) to the consolidated financial statements

1.7 Property, plant and equipment

The Company has adopted the Group accounting policy for property, plant and equipment as set out in note 1.10 to the consolidated financial statements.

1.8 Available for sale investment

The Company has adopted the Group accounting policy for available for sale investment as set out in note 1.11 to the consolidated financial statements.

1 Accounting policies (continued)

1.9 Inventories

The Company has adopted the Group accounting policy for inventories as set out in note 1.12 to the consolidated financial statements.

1.10 Revenue recognition

The Company has adopted the Group accounting policy for revenue recognition as set out in note 1.13 to the consolidated financial statements.

1.11 Retirement benefits

The Company has adopted the Group accounting policy for retirement benefits as set out in note 1.14 to the consolidated financial statements.

1.12 Taxation

The Company has adopted the Group accounting policy for taxation as set out in note 1.15 to the consolidated financial statements.

1.13 Tax saving transfer

The Company has adopted the Group accounting policy for tax saving transfer as set out in note 1.16 to the consolidated financial statements.

1.14 Research and development expenditure credit (RDEC)

The Company has adopted the Group accounting policy for RDEC as set out in note 1.17 to the consolidated financial statements.

1.15 Government grants

The Company has adopted the Group accounting policy for Government grants as set out in note 1.18 to the consolidated financial statements.

1.16 Derivative financial instruments

The Company has adopted the Group accounting policy for derivative financial instruments as set out in note 1.19 to the consolidated financial statements.

1.17 Leases

The Company has adopted the Group accounting policy for leases as set out in note 1.20 to the consolidated financial statements.

1.18 Share-based payments

The Company has adopted the Group accounting policy for share-based payments as set out in note 1.21 to the consolidated financial statements.

1.19 Borrowings

The Company has adopted the Group accounting policy for borrowings as set out in note 1.22 to the consolidated financial statements.

1.20 Financial assets and liabilities

The Company has adopted the Group accounting policy for financial assets and liabilities as set out in note 1.23 to the consolidated financial statements.

1 Accounting policies (continued)

1.21 Provisions

The Company has adopted the Group accounting policy for provisions as set out in note 1.24 to the consolidated financial statements.

1.22 Investments in subsidiary undertakings

Investments held in subsidiary undertakings are carried at cost less provision for any impairment. An impairment review is carried out at the reporting date and where the recoverable value is less than the carrying value, an impairment provision is recognised.

1.23 Cash and cash equivalents

The Company has adopted the Group accounting policy for cash and cash equivalents as set out in note 1.25 to the consolidated financial statements.

1.24 Restricted cash

The Company has adopted the Group accounting policy for restricted cash as set out in note 1.26 to the consolidated financial statements.

2 Critical accounting judgements and key areas of estimation and uncertainty

The Company has the same critical accounting judgements and key areas of estimation and uncertainty as disclosed in note 2 to the consolidated financial statements. In relation to income taxes, Company deferred tax assets recognised on tax losses amount to $12.2m as at 31 August 2019 and the unrecognised losses were $194.6m (note 10 to the company financial statements).

3 Revenue

Contract balances

The following table provides information about contract assets, contract costs and contract liabilities from contracts with customers. Contract assets primarily relate to the Company's right to consideration for work completed but not yet billed at the reporting date on customer contracts. The contract assets are transferred to receivables when amounts have been invoiced in accordance with agreed and committed payment schedules. The contract costs primarily relate to the cost of hardware and external subcontracting costs for service contracts that are deferred and recognised in line with the associated revenue. Contract liabilities primarily relate to the advance consideration received from customers on maintenance contracts, for which revenue is recognised evenly over the length of the contract.

	2019			**2018**		
	Contract assets $'000	**Contract costs $'000**	**Contract liabilities $'000**	**Contract assets $'000**	**Contract costs $'000**	**Contract liabilities $'000**
As at 1 September	**4,084**	**4,408**	**(62,007)**	4,307	2,756	(52,817)
Revenue recognised that was included in the contract costs/liability at the start of the period	-	**(2,096)**	**48,203**	-	(1,810)	47,599
Increase due to amounts invoiced, *excluding amounts* recognised as revenue during the year	-	-	**(42,317)**	-	-	(51,719)
Acquired through transfer of trade and assets	-	-	-	997	-	(3,727)
Transfers from contract assets recognised at the start of the period, and on acquisition, to receivables	**(3,352)**	-	-	(5,016)	-	-
Transfer from contract liabilities recognised at the start of the period to payables	-	-	**2,757**	-	-	1,661
Increases as a result of changes in the measure of progress and costs to obtain and fulfil contracts, including new contracts obtained during the year	**7,607**	**1,263**	**(5,267)**	3,796	3,462	(3,004)
As at 31 August	**8,339**	**3,575**	**(58,631)**	4,084	4,408	(62,007)

Amounts held in trade receivables in respect of contracts were $30.0m (2018 - $39.2m).

4 Taxation

a) Taxation recognised in the income statement

	2019 $'000	2018 $'000
Current tax expense		
UK corporation tax charge	**1,048**	558
Foreign tax charge	**22**	515
Adjustments in respect of prior years	**(15)**	-
Total current tax charge for the year	**1,055**	1,073
Deferred tax (credit)/charge		
Origination and reversal of temporary timing differences	**(641)**	(611)
Change in tax rate	**(187)**	-
Adjustments in respect of prior years	**(1,077)**	-
Total deferred tax credit for the year (note 10)	**(1,905)**	(611)
Total tax (credit)/charge for the year	**(850)**	462

UK Corporation tax is calculated at 19% (2018 – 19.0%) of the estimated assessable (loss)/profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

b) Reconciliation of total tax (credit)/charge to accounting (loss)/profit

	2019 $'000	2018 $'000
(Loss)/profit before tax	**(47,955)**	5,632
Tax (credit)/charge on Company (loss)/profit at standard UK corporation rate of 19% (2018 – 19.0%)	**(9,111)**	1,070
Tax effect of:		
Expenses not tax deductible	**611**	1,005
Different tax rates in branches operating in other jurisdictions	**15**	(1)
Withholding taxes suffered	**563**	506
Tax losses not recognised	**8,416**	-
Impact of disposal of chargeable assets	**(65)**	-
Change in tax rate	**(187)**	-
Adjustments in respect of prior years	**(1,092)**	-
Other timing differences	**-**	(118)
Utilisation of tax losses	**-**	(2,000)
Company income tax (credit)/charge for the year	**(850)**	462

5 Goodwill

	Goodwill $'000
Cost	
At 31 August 2018 and 31 August 2019	**3,026**
Carrying amount	
At 31 August 2019	**3,026**
At 31 August 2018	3,026

The following cash generating unit has significant carrying amounts of goodwill:

	2019 $'000	2018 $'000
Metaswitch	**3,026**	3,026

Metaswitch Networks CGU

The Company tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired. The recoverable amounts of the CGU are determined from the value in use calculations.

The Company prepares cash flow forecasts derived from the most recent financial budgets and forecasts approved by management, covering the next three years.

The key assumptions from the value in use calculations are those regarding growth rates, expected direct costs during the period and discount rates. The rate used to discount the forecast cash flows is estimated by reference to the Company's weighted average cost of capital and the degree of risk that management considers appropriate for a particular CGU. The pre-tax discount rate applied was 20% (2018 - 14%).

The growth rates are based on a combination of internal and industry growth forecasts and are reviewed for consistency with historically achieved growth rates. No long term growth rates are used in the calculations. Changes in direct costs are based on past practices and expectations of future changes in the market. Operating expense growth rates are in line with revenue growth rates. Given the significant amount of headroom available in the impairment test, management believes that there are no reasonably possible changes to key assumptions which would result in the recoverable amount of the CGU falling below the carrying amount.

6 Intangible assets

	Patents $'000	Software $'000	Trademarks $'000	Customer Relationships $'000	Total $'000
Cost					
At 31 August 2017	6,140	1,753	-	-	7,893
Disposals	-	(6)	-	-	(6)
Additions	1,017	317	-	-	1,334
Acquisitions	-	-	617	5,238	5,855
At 31 August 2018	7,157	2,064	617	5,238	15,076
Additions	931	1,682	-	-	2,613
Disposals	-	(120)	-	-	(120)
At 31 August 2019	**8,088**	**3,626**	**617**	**5,238**	**17,569**
Amortisation					
At 31 August 2017	4,309	1,617	-	-	5,926
Provided for the year	828	82	84	711	1,705
Disposals	-	(4)	-	-	(4)
At 31 August 2018	5,137	1,695	84	711	7,627
Provided for the year	834	320	89	972	2,215
Disposals	-	(96)	-	-	(96)
At 31 August 2019	**5,971**	**1,919**	**173**	**1,683**	**9,746**
Carrying amount					
At 31 August 2019	**2,117**	**1,707**	**444**	**3,555**	**7,823**
At 31 August 2018	2,020	369	533	4,527	7,449

Intangible assets with a carrying amount of $7.8 million (2018 - $7.4 million) are subject to fixed and floating charges from banks providing borrowing facilities to the Company (note 14).

Amortisation of patents and software intangible assets is shown under 'cost of sales' and amortisation of trademarks and customer relationships is shown under 'sales and marketing expenses' in the income statement.

7 Property, plant and equipment

	Land and buildings freehold $'000	Land and buildings leasehold $'000	Plant, machinery, and equipment $'000	Total $'000
Cost				
At 31 August 2017	9,450	269	19,851	29,570
Acquisitions	-	-	11	11
Additions	-	187	1,329	1,516
Disposals	-	-	(131)	(131)
Transferred from inventory	-	-	23	23
At 31 August 2018	9,450	456	21,083	30,989
Additions	-	433	1,804	2,237
Disposals	(9,450)	-	(2,647)	(12,097)
At 31 August 2019	**-**	**889**	**20,240**	**21,129**
Depreciation				
At 31 August 2017	3,124	251	16,051	19,426
Provided for the year	112	6	1,437	1,555
Disposals	-	-	(127)	(127)
Transferred from inventory	-	-	1	1
At 31 August 2018	3,236	257	17,362	20,855
Provided for the year	103	7	1,544	1,654
Disposals	(3,339)	-	(2,428)	(5,767)
At 31 August 2019	**-**	**264**	**16,478**	**16,742**
Carrying amount				
At 31 August 2019	**-**	**625**	**3,762**	**4,387**
At 31 August 2018	6,214	199	3,721	10,134

The profit on disposal of property, plant and equipment recorded in the income statement for the year ended 31 August 2019 was a profit of $527,000 (2018 – $6,000 loss). Of this profit $515,000 was in relation to the sale of the UK headquarters freehold land and buildings for $6.8m.

Included in land and buildings leasehold is $0.6m (2018 – nil) in relation to an asset in the course of construction. At 31 August 2019 the Company had a contractual commitment of $6.2m regarding this asset.

Property, plant and equipment with a carrying amount of $4.4 million (2018 - $10.1 million) are subject to fixed and floating charges from banks providing borrowing facilities to the Company (note 14).

8 Investments

	Shares in subsidiary undertakings $'000
Cost	
At 31 August 2017	10,651
Acquisition of trade and assets	2,513
Transfer to goodwill	(3,026)
At 31 August 2018 and 31 August 2019	**10,138**
Impairment	
At 31 August 2017	7,451
Acquisition of trade and assets	1,645
At 31 August 2018 and 31 August 2019	**9,096**
Carrying amount	
At 31 August 2019	**1,042**
At 31 August 2018	1,042

9 Available for sale investment

	2019 $'000	2018 $'000
Available for sale investment	-	11,567

The investment held as a non-voting interest in a US technology company was sold on 5 November 2018 for $11.6m.

10 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior year.

	Tax losses $'000	Property, plant & equipment $'000	Retirement benefits $'000	Other temporary differences $'000	Total $'000
At 31 August 2017	11,611	46	55	2,964	14,676
(Charge)/credit to income statement	572	(28)	11	56	611
Charge to statement of comprehensive income	-	-	-	(1,255)	(1,255)
At 31 August 2018	**12,183**	**18**	**66**	**1,765**	**14,032**
Adjustments in respect of prior periods	**-**	**(147)**	**-**	**1,224**	**1,077**
(Charge)/credit to income statement	**-**	**(184)**	**3**	**1,009**	**828**
At 31 August 2019	**12,183**	**(313)**	**69**	**3,998**	**15,937**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. At the reporting date, the Company has unused tax losses as follows:

	2019 $'000	2018 $'000
Recognised		
Tax losses	**71,662**	68,299
Other timing differences	**22,083**	14,748
	93,745	83,047
Unrecognised		
Tax losses	**194,577**	149,985
Total	**288,322**	233,032

No deferred tax asset has been recognised on the remaining $194.6m losses due to the uncertainty of the amount and timing of taxable profits against which the tax losses would be utilised. All losses, recognised and unrecognised, may be carried forward indefinitely.

11 Inventories

	2019 $'000	2018 $'000
Finished goods	**919**	1,168

Inventories with a carrying amount of $0.9 million (2018 - $1.2 million) are subject to fixed and floating charges from banks providing borrowing facilities to the Company (note 14). Included within cost of sales are $4.0 million (2018 - $6.7 million) of inventories recognised as an expense during the year.

12 Trade and other receivables

	2019 $'000	2018 $'000
Trade receivables	**30,010**	39,208
Other receivables	**12,892**	9,327
Amounts due from subsidiary undertakings	**1,875**	5,066
Prepayments	**2,549**	2,013
	47,326	55,614

Amounts due from subsidiary undertakings are interest free and repayable on demand.

13 Trade and other payables

	2019 $'000	2018 $'000
Trade payables	**3,247**	3,107
Legal settlement payable (note 16)	**7,776**	-
Other payables	**7,603**	4,758
Accruals	**8,318**	8,752
Due to Data Connection Second Employee Benefit Trust (note 20)	**2,548**	5,837
	29,492	22,454

14 Borrowings

	2019 $'000	2018 $'000
Non-current liabilities		
Bank loans	**65,750**	55,500
Less: unamortised facility fees	**(558)**	(844)
	65,192	54,656
Current liabilities		
Bank loans and overdrafts	**3,750**	3,000
Loan maturity analysis:		
In less than one year	**3,750**	3,000
In more than one year but not more than two years	**20,750**	3,750
In more than two years but not more than five years	**45,000**	51,750
	69,500	58,500

Reconciliation of liabilities arising from financing activities:

	2019 $'000	2018 $'000
Opening balance at the start of the financial year	**57,656**	61,873
Proceeds from long-term borrowings	**14,000**	-
Repayment of long-term borrowings	**(3,000)**	(4,408)
Amortisation of facility fees	**286**	191
Closing balance at the end of the financial year	**68,942**	57,656

Details of the borrowing facilities available to the Company are shown in note 17 to the consolidated financial statements.

15 Provisions

	Intellectual property infringement $'000	Warranty provision $'000	Total $'000
At 1 September 2018	10,074	200	10,274
Transfer to other payables	(9,684)	-	(9,684)
Credit to the income statement	(190)		(190)
At 31 August 2019	**200**	**200**	**400**

Intellectual property infringement provision

Details of this provision are shown in note 18 to the consolidated financial statements.

Warranty provision

The provision represents costs expected to be incurred to repair products installed on customers' networks in accordance with normal terms of business. The provision is expected to be utilised within one year.

16 Other payables

On 29 May 2019 the Company entered into a Settlement Agreement with Ribbon where the parties settled all claims between them and all actions or conduct that predated execution of the Settlement Agreement. This Settlement Agreement covered a number of cases, the detailed background to which is set out in note 18 to the consolidated financial statements.

Under the terms of the Settlement Agreement the Company will pay Ribbon $63.0m. Payments of $26.3m were paid to Ribbon during the year ended 31 August 2019. In addition $11.2m, which was transferred to restricted cash during the year ended 31 August 2018, was released to Ribbon. A further $25.5m is payable under the terms of a promissory note. The promissory note bears interest at the rate of 4% per annum. The payments are due in three equal annual instalments along with any accrued unpaid interest on 26 June 2020, 2021 and 2022. The liability was discounted using a discount rate of 7.5%.

	Other payables $'000
At 1 September 2018	-
Transfer from provisions (note 15)	9,684
Charge to the income statement	51,404
Legal settlement interest accretion	542
Legal settlement payments	(26,300)
Release of restricted cash	(11,200)
At 31 August 2019	**24,130**
Disclosed as:	
Trade and other payables: due within one year (note 13)	7,776
Other payables: due in more than one year	16,354
At 31 August 2019	**24,130**

17 Share capital and reserves

a) Share capital

	2019 $	2018 $
Allotted, called up and fully paid		
120,900,566 A Preferred shares of 0.001p each	**1,920**	1,920
27,157,141 Ordinary Shares of $^1/_{3000}$ p each [1] (2018 – 26,646,203)	**137**	137
3 C1 Ordinary Shares of $^1/_{3000}$ p each	**-**	-
7,027,126 C2 Ordinary Shares of $^1/_{3000}$ p each (2018 – 6,934,419)	**38**	38
1,154,111 C3 Deferred Ordinary Shares of $^1/_{3000}$ p each (2018 – 1,246,818)	**6**	6
12,953,632 B1 Preferred Shares of 0.001p each	**206**	206
33,265,069 B2 Preferred Shares of 0.001p each (2018 – 33,134,441)	**538**	538
5,595,828 B3 Deferred Shares of 0.001p each (2018 – 5,726,465)	**86**	86
27,524,325 C Preferred Shares of 0.001p each	**413**	413
2,626,748 Additional Plan Ordinary Shares of $^1/_{3000}$ p each (2018 – 464,484)	**6**	6
	3,350	3,350

A reconciliation of the movement in the number of issued shares during the current and prior year is shown in note 21(a) to the consolidated financial statements, together with details of the voting rights of each category of share capital.

Options were granted under the Company's share plan during the year. Details of options granted are shown in note 22(b) to the consolidated financial statements.

b) Reserves

The share premium account represents the difference between the issue price and the nominal value of shares issued.

The capital redemption reserve reflects the repurchase of D and S ordinary shares on 10 January 2008 from reserves. The capital redemption reserve is not distributable.

The available for sale reserve represents the cumulative gain or loss on available for sale investments.

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Retained earnings represent total income and expense in the current and prior years attributable to shareholders, less cumulative dividends to shareholders.

18 Operating leases

Outstanding commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	2019 $'000	2018 $'000
Not later than one year	**805**	761
Later than one year and not later than five years	**9,896**	2,221
Later than five years	**20,174**	1,491
	30,875	4,473

Operating lease payments substantially represent rentals payable by the Company for office properties. The above includes the operating lease commitments under the lease signed during the year ended 31 August 2019 for the new UK headquarters.

19 Staff costs

	2019 $'000	2018 $'000
Wages and salaries	**46,630**	45,845
Social security costs	**5,171**	5,068
Pension costs	**3,059**	2,908
	54,860	53,821

Employee numbers

The average monthly number of full-time equivalent employees (including directors) during the year was:

	2019 Number	2018 Number
Production, support and services	**177**	164
Sales & marketing	**45**	43
Research & development	**296**	253
Administration	**94**	88
	612	548

20 Related party transactions

All transactions disclosed in note 25 to the consolidated financial statements were entered into by the Company. In addition, the Company has entered into the following intercompany transactions which are all governed by individual inter-group agreements covering various services provided to the Company on an arm's length basis.

	Revenue/ (Expense) for 2019 $'000	Amounts receivable/ (payable) at 31 August 2019 $'000	Revenue/ (Expense) for 2018 $'000	Amounts receivable/ (payable) at 31 August 2018 $'000
Metaswitch Networks Corporation	**(43,331)**	**4,231**	(46,180)	5,853
Metaswitch Networks A.S.	**-**	**-**	-	9
Metaswitch Networks S.A.R.L.	**(1,475)**	**(227)**	(1,805)	(193)
Metaswitch Networks Thailand	**(370)**	**(91)**	(144)	(47)
Metaswitch Networks Australia Pty	**(1,312)**	**(91)**	(1,217)	(176)
Metaswitch Networks Mexico	**(1,924)**	**(1,744)**	(2,291)	(1,560)
Metaswitch Networks Spain S.L.	**-**	**(16)**	(21)	(17)
Open Cloud New Zealand	**(2,461)**	**450**	(1,181)	1,178
Metaswitch Networks Canada	**(1,018)**	**(2,127)**	(993)	(1,003)
Open Cloud US	**-**	**166**	-	158
Open Cloud Brazil	**-**	**17**	-	4
Metaswitch Networks Indonesia	**514**	**959**	313	1,142
Open Cloud Japan	**-**	**115**	-	94
Open Cloud Spain	**-**	**233**	-	(376)

21 Financial instruments

a) Categories of financial instruments

Carrying amounts and fair values of financial assets and liabilities

Set out below is a comparison by category of the carrying amounts and fair values of all the Company's financial assets and liabilities.

	2019		2018	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial assets				
Available for sale investment	-	-	11,567	11,567
Cash and cash equivalents	**16,091**	**16,091**	9,014	9,014
Trade and other receivables	**44,195**	**44,195**	53,601	53,601
Contract assets	**8,339**	**8,339**	4,084	4,084
Restricted cash	-	-	11,269	11,269
At fair value through profit and loss:				
Derivative financial assets – held for trading	**82**	**82**	-	-
Total financial assets	**68,707**	**68,707**	89,535	89,535

	2019		2018	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial liabilities				
Financial liabilities held at amortised cost:				
Bank loans, overdrafts and other loans	**68,942**	**68,942**	57,656	57,656
Trade and other payables	**29,492**	**29,492**	22,454	22,454
Contract liabilities	**58,631**	**58,631**	62,007	62,007
At fair value through profit and loss:				
Derivative financial liabilities – held for trading(2)	**999**	**999**	813	813
Total financial liabilities	**158,064**	**158,064**	142,930	142,930

The following assumptions have been made in estimating the fair values of financial assets and liabilities:

(1) Due to their short maturities, the fair values of trade receivables, other receivables, amounts due from Group undertakings, contract costs and contract assets have been stated at their carrying amounts.

(2) The fair values of derivative financial instruments are discussed in note 21(b) which follows.

(3) Due to their short maturities, the fair values of trade payables, other payables, and contract liabilities have been stated at their carrying amounts.

21 Financial instruments (continued)

b) Derivatives and fair value hierarchy

The Company's policy is the same as the Group, disclosed in note 27(b) of the consolidated financial statements.

c) Capital risk management

The Company's policy is the same as the Group, disclosed in note 27(c) of the consolidated financial statements.

d) Market risk

The Company's policy is the same as the Group, disclosed in note 27(d) of the consolidated financial statements.

e) Interest rate risk

The Company's policy is the same as the Group, disclosed in note 27(d)(i) of the consolidated financial statements.

f) Foreign currency risk

The Company's policy is the same as the Group, disclosed in note 27(d)(ii) of the consolidated financial statements.

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities by currency at the reporting date are:

	Assets		Liabilities	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Sterling	**15,671**	8,362	**(13,712)**	(9,675)
Euro	**504**	1,537	**(553)**	(724)
Hong Kong Dollar	**50**	92	**(80)**	(101)
Australian Dollar	**461**	180	**(3)**	(9)
Canadian Dollar	**850**	168	**-**	(4)
Others	**506**	279	**(59)**	(41)
	18,042	10,618	**(14,407)**	(10,554)

Sensitivity analysis

The following sensitivity analysis shows the impact of currency translation exposures arising from monetary assets and liabilities of the Company that are not denominated in the functional currencies of Metaswitch Networks Ltd or of its branches. It shows the impact on the Company income statement by changing the year end exchange rate of US dollar against all other currencies.

The impacts on profit before tax of a 10% strengthening and a 10% weakening of the US dollar are as follows:

	2019 $'000	**2018 $'000**
10% strengthening of US dollar	**364**	(6)
10% weakening of US dollar	**(364)**	6

At 31 August 2019 the Company had in place forward contracts to exchange $27.3m (2018 - $18.6m) for £21.6m (2018 - £13.7m). These contracts were established to protect the potential future exposure of the Company to changes in the US Dollar to Sterling exchange rate. In view of this, the Directors consider the likelihood of a change in exchange rates impacting profits to the extent shown in the above sensitivity analysis to be low. The Company does not enter into speculative derivative contracts.

21 Financial instruments (continued)

g) Credit risk

The Company's policy is the same as the Group, disclosed in note 27(e) of the consolidated financial statements. The Company considers its maximum exposure to credit risk is as follows:

	2019 $'000	2018 $'000
Available for sale investment	-	11,567
Cash and cash equivalents	16,091	9,014
Restricted cash	-	11,269
Trade receivables and other receivables	44,195	53,601
Contract assets	8,339	4,084
Derivative financial assets	82	-
	68,707	89,535

The largest trade receivable at 31 August 2019 was for $2.6m (2018 - $2.9m). The table below shows the movements in the provision for bad and doubtful receivables:

	2019 $'000	2018 $'000
At start of year	457	540
Amounts provided for during the year	319	74
Provision written back	-	(6)
Utilisation	-	(151)
At end of year	776	457

The ageing of the individually impaired trade receivables is as follows:

	2019 $'000	2018 $'000
120 + days past due	776	457
At 31 August	776	457

Ageing of trade receivables (excluding those which have been impaired) are as follows:

	2019 $'000	2018 $'000
Neither past due nor impaired	28,554	7,477
1 – 30 days past due	631	7,039
31 – 60 days past due	586	17,790
61 – 90 days past due	22	5,724
91 – 120 days past due	197	439
120+ days past due	20	739
	30,010	39,208

The Directors consider that the carrying amount of receivables approximates to their fair value.

21 Financial instruments (continued)

h) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation. The Company has net current liabilities of $18.1m (2018 - $13.2m) which includes $51.3m (2018 - $57.1m) of deferred revenue (included in contract liabilities on the consolidated statement of financial position). Excluding deferred revenue the Group has net current assets of $33.2m (2018 - $43.9m).

The Group uses monthly cash-flow forecasts to monitor cash requirements and to optimise its return on investments.

i) Contractual cash flows

The table below summarises the maturity profile of the Company's undiscounted cash flows of the financial liabilities and the earliest date on which the Company is required to pay:

2019	Due within 1 year $'000	Due between 1 and 2 years $'000	Due between 2 and 5 years $'000	Total $'000
Non-derivative financial liabilities				
Bank, shareholder and other loans	**3,750**	**20,750**	**45,000**	**69,500**
Trade and other payables	**31,236**	**9,180**	**8,840**	**49,256**
Contract liabilities	**58,631**	-	-	**58,631**
Total financial liabilities	**93,617**	**29,930**	**53,840**	**177,387**

2018	Due within 1 year $'000	Due between 1 and 2 years $'000	Due between 2 and 5 years $'000	Total $'000
Non-derivative financial liabilities				
Bank, shareholder and other loans	3,000	3,750	51,750	58,500
Trade and other payables	22,454	-	-	22,454
Contract liabilities	62,007	-	-	62,007
Total financial liabilities	87,461	3,750	51,750	142,961

j) Borrowing facilities

The Company's policy is the same as the Group, disclosed in note 27(h) of the consolidated financial statements.