

Company Registration No. 3879840

**Cambridge Broadband Networks  
Limited**

**Report and Financial Statements**

**31 December 2018**



# **CAMBRIDGE BROADBAND NETWORKS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2018**

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# **CAMBRIDGE BROADBAND NETWORKS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2018**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

H Hauser  
L Chmielewsky  
J Naylor  
M Gibson  
A Lederle  
J McKay

#### **SECRETARY**

S Gowing

#### **REGISTERED OFFICE**

Byron House  
Cambridge Business Park  
Cowley Road  
Cambridge  
CB4 0WZ

#### **INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditor  
The Maurice Wilkes Building  
St John's Innovation Park  
Cambridge  
CB4 0DS

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## STRATEGIC REPORT

The principal activities of the Group are the design, manufacture and sale of PMP microwave and millimetre wave radios for use in telecommunications.

Cambridge Broadband Networks Limited ('CBNL' or 'the Group') continued to experience short-term operational and financial challenges in 2018.

Revenue decreased from 2017 to \$23.7m (2017: \$37.2m) with an operating loss of \$8.0m (2017: operating profit of \$0.4m). The gross margin reduced by 6% to 40% (2017: 46%).

With \$5.0m (2017: \$4.1m) invested in R&D over the course of 2018, CBNL continues to lead the market in licensed point-to-multipoint (PMP) engineering expertise. We will build on our base of 31 pre-5G networks in the US, world-wide business with more than 100 tier 1 network operators and 18 years of successful PMP deployments to take full advantage of the emerging 5G fixed wireless access (FWA) opportunity.

### Market opportunity

As the leader in pre-5G FWA and with first-mover technology, products, significant IP and industry know-how, CBNL remains well positioned for the emerging 5G FWA market.

By combining industry-leading FWA solutions with the emerging 5G ecosystem, we plan to maintain our leadership in the emerging multi-\$billion residential and enterprise access segments.

The 5G FWA infrastructure market is large and forecast by some analysts to grow at 70% CAGR<sup>1</sup> from 2019 with residential access FWA accounting for the bulk of this growth. Residential FWA is of strategic importance for 5G deployments because it represents a large and tangible incremental revenue opportunity for operators. Millimetre wave will form a large part of these deployments with the North American market representing a third of the overall market. The availability of low-cost CPEs and the inherently low Total Cost of Ownership (TCO) of point-to-multipoint FWA will accelerate the adoption of 5G FWA. Recent research from Ovum suggests that 5G FWA can be almost 50% cheaper to deploy than 'fibre to the x' (FTTx) and can serve up to 85% of residential users' needs<sup>2</sup>.

### Strategy

Our strategy is to continue to offer unmatched product innovation, field-proven quality and engineering capabilities.

Our 5G Next Generation (NG) roadmap provides the right combination of features and TCO to allow operators to build profitable networks and for CBNL to sustain very significant repeat revenue.

The NG platform is a modular, productised architecture built for scale and longevity. The platform design enables short product lead time, cost-effective design and high-margin manufacture of different variants for specific market applications. At the same time, we will maintain our bespoke engineering capability to help develop deep and long lasting relationships with new and existing customers.

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<sup>1</sup> SNS Research 2017

<sup>2</sup> Ovum, 5G Wireless Home Broadband: A Credible Alternative to Fixed Broadband

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## STRATEGIC REPORT (continued)

### Board

We are fortunate to retain exceptional talent on our board, which is a mix of Executive and Non-executive shareholder representative directors, all of whom have extensive industry experience, and many of whom have extensive VC experience and have the advantage of long tenure with the Group. They meet a minimum of four times a year, with other regular updates held as required.

### Principal risks and uncertainties

The following list specifies operating risks and uncertainties relevant to CBNL's business. It is not exhaustive.

- The telecommunications industry is intensely competitive. CBNL is small in comparison with its wider competitors and such competitors may be able to price and discount PMP or PTP links as part of a wider offering of an entire network.
- The Group has a single source manufacturer in Benchmark Electronics Inc., and its products are manufactured in the People's Republic of China (PRC). CBNL's revenue may be affected by any issues which affect this company and any working restrictions which apply to the PRC.
- The Group's VectaStar products include bespoke components which have an extended lead time for manufacture and delivery, and also contain scarce materials which have long lead times and may be subject to restricted availability.
- The Group builds product on the basis of sales forecasts. These may be inaccurate, overstated or subject to change.
- The Group's VectaStar products rely on owned IP and on open source software. Challenges may be made to owned IP, some patents are nearing the expiry of their term, and the availability of proprietary and open source software may change.
- Software and hardware failures may render the product unserviceable. The Group offers a guarantee on products, which if called upon in greater frequency than forecast, could have an impact on revenue and on margin.
- There is significant competition for highly qualified, experienced and specialised employees. Loss of key personnel could adversely impact the Group's ability to pursue its R&D roadmap and serve its existing and future customers.
- CBNL's operating results could be negatively impacted by exposure to foreign currency risk and inability to extract funds from operating subsidiaries.
- CBNL is reliant on the continued support from its lenders and/or additional funding.

The executive management of the Group, using both internal and external data as appropriate, regularly considers how these and other risks might impact on the achievement of the Group's strategic objectives and the overall performance of the business. Where a risk is considered to be material, executive management is responsible for developing and maintaining plans to mitigate against the risk actually occurring, or to respond in the event the risk were to occur. Risks in certain areas, and the plans to mitigate them, are also subject to periodic review by the Board.

### Personnel

Headcount at 31 December 2018 was 78 (2017: 83).

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## STRATEGIC REPORT (continued)

### Financials

Revenue for 2018 was \$23.7m compared to \$37.2m in 2017. The decrease was due to a combination of manufacturing component shortages; restricted working capital and spectrum uncertainty in North America.

Gross profits were impacted by the decrease in revenue, material shortages and product mix and as a result were \$9.5m for the year (2017: \$17.1m).

Operational costs for the year were \$12.4m (2017: \$12.6m) and the Group invested \$5.0m (2017: \$4.1m) in R&D activities.

This resulted in an operating loss for the year of \$8.0m (2017: operating profit of \$0.4m). The net loss of the year after financing and tax was \$9.6m (2017: \$1.7m).

### Key performance indicators (KPIs)

Financial key performance indicators for CBNL were as follows:

Financial KPI	Actual 2018	Actual 2017
Revenue (\$m)	\$23.7	\$37.2
Gross margin %	40%	46%
EBITDA (\$m)	\$(8.0)	\$1.2
Debtor Days	133	136

EBITDA for KPI purposes is operating loss before depreciation and amortisation excluding withholding tax and foreign exchange gains and losses.

### Going concern

The Group and Company were loss making during the year and are actively seeking new investment and/or funding. The Company did receive additional funding of \$1m from both its existing lenders, Triplepoint Capital and BMS finance in two tranches on 5 March 2019 and 4 April 2019. The Group has also received positive correspondence from its lenders confirming their continuing support despite breaching and forecasting to remain in breach of the financial covenants.

The Directors have prepared a business plan and cash flow forecast for a twelve month period following the approval of the financial statements. The forecast contains certain assumptions about the level of future sales and the level of gross margins as well as the ability to either renegotiate the existing loan facilities or obtain new investment and/or funding ahead of the maturity of the existing loan facilities in December 2019. These assumptions are the Directors' best estimate of the future development of the business.

The Directors recognise that there are inherent uncertainties attached to the ability to renegotiate the existing loan facilities and to raise the required funds on a timely basis and to the timing and quantum of future sales and receipts thereon due to the nature of the sector in which the Group and Company operate and the trading cycles of the customer base. The Directors are aware that mitigating actions are available to reduce the ongoing costs of the business should they be needed.

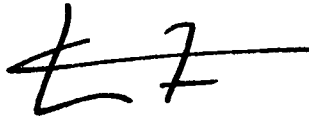
# CAMBRIDGE BROADBAND NETWORKS LIMITED

## STRATEGIC REPORT (continued)

### Going concern (continued)

There is a material uncertainty related to the ability of the Group and Company to renegotiate the existing loan facilities and to raise the required funding on a timely basis which may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, they may be unable to realise their assets and discharge their liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern. In the event that the Group and Company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including inventories, to their recoverable amount and providing for any further liabilities that might arise, as well as reclassifying non-current assets to current assets. However, the Directors believe there is a reasonable expectation that they can continue as a going concern for a period greater than twelve months from the date of approval of these financial statements.

On behalf of the Board



L Chmielewsky  
Director  
25 June 2019

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## DIRECTORS' REPORT

The Directors present their annual report, together with the audited consolidated financial statements and auditors' report, for the year ended 31 December 2018.

## CORPORATE AND SOCIAL RESPONSIBILITY

### Our people

The Group is proud to work with an excellent team of people, and a working environment that allows freedom to operate and cultivates innovation and the sharing of ideas. We continue to find new ways to improve our internal communication and in turn, continue our culture of teamwork.

### Supplier, partner and contractor relations

Operating in countries such as Africa and the Middle East, the Group is acutely aware of compliance responsibilities and works closely with suppliers and customers to ensure best practice. In its business code of conduct, the Group demands compliance with regulations and laws, including anti-corruption legislation, anti-trust legislation and export controls. The Group is also firmly committed to providing equality of opportunity in all aspects of the business and does not tolerate discrimination, harassment, retaliation or victimisation for any reason.

CBNL outsources the manufacture of its VectaStar products to the US-based Benchmark Electronics Inc. at their state-of-the-art facility in Suzhou, China. This build-to-print factory is fully ISO (International Organization for Standardization), TL9000 (Telecommunications sector-specific ISO 9000 standard), TS16949 (ISO technical specification aimed at the development of a quality management system) and EHS (Environmental, Health and Safety) compliant. All products are manufactured to CBNL's own design and tested on CBNL equipment and to Group specifications, prior to release.

As a matter of course, the Group stipulates that all suppliers have appropriate environmental and employment policies in place.

The Group is dedicated to reducing its environmental impact, both within its products as well as its business operations. Telecommunications network equipment may be power intensive and environmentally intrusive. CBNL has taken extensive steps to significantly reduce the amount of power required to run a network using its equipment. The VectaStar architecture reduces the number of radios required for each network by almost half compared with the point-to-point (PTP) microwave provision.

This in turn requires half as much power and half as many mounting sites, radically reducing VectaStar's environmental impact.

Internally, the Group positively encourages recycling and continues to pursue strategies to reduce waste water and energy consumption at an operational level.

### Results and dividends

The net loss for the year after taxation amounted to \$9.6m (2017: loss of \$1.7m). The Directors do not recommend the payment of a dividend for the year (2017: nil). In the year ended 31 December 2018 the Group generated revenue of \$23.7m (2017: \$37.2m).

### Research and development

The Group spent \$5.0m (2017: \$4.1m) on R&D activities during the year. These have been treated in accordance with note 3 to the Financial Statements.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## DIRECTORS' REPORT (continued)

### DIRECTORS

The Directors who served throughout the year and at the date of this report were:

H Hauser  
J Naylor  
M Gibson  
L Chmielewsky  
A Lederle  
J McKay

### Directors' Indemnities

The Group has purchased and maintained throughout the year Directors' and Officers' liability insurance. The Directors also have the benefit of the indemnity provision contained in the Company's Articles of Association. The Group has made qualifying third party indemnity provisions for the benefit of its Directors.

### Policy on payment of creditors

It is the Group's policy that payments to suppliers should be made in accordance with the terms agreed with them, provided that all trading terms and conditions have been met. At 31 December 2018 the Company had an average of 278 days of purchases outstanding in trade payables (2017: 125 days).

### Directors' statement as to disclosure of information to the Auditor

In the case of each of the Directors of the Group at the date on which this report was approved:

- as far as each of the Directors is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

### Financial risk management

The main financial risks arising from the Group's activities are foreign currency risk, interest rate risk, liquidity risk and credit risk. The Group's management of these risks is set out in note 29.

### Capital structure

The Group's share capital is divided into four classes of share, AA preferred, BB preferred, ordinary and AA ordinary, all of £0.01 each. The AA ordinary shares have not been issued – options over these will be granted when the Company's new share scheme is implemented. The classes of share carry different voting rights and rights as to dividends and the distribution of reserves. Please see note 23 of the Financial Statements for more detail.

### Political and charitable donations

No political donations were made during the year. Employees participated in various charitable fundraising activities during the year in aid of local and national charities.

### Employees

CBNL seeks to involve its employees in its corporate objectives plans and performance and in other relevant matters of interest to employees through various communication methods, including regular employee meetings. The Directors consider there to be a good working relationship between Directors and staff. The Group is an equal opportunities employer and does not discriminate in the recruitment and promotion of staff, including applicants who are disabled.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## DIRECTORS' REPORT (continued)

### Health and safety and environmental issues

The Group is committed to achieving high health and safety and environmental standards and aims for continuous improvement and performance in those areas. The Group has an excellent health and safety record. Constant innovations in the design and manufacture of our products continue to reduce the environmental impact of manufacturing and operating the Group's products.

### Going concern

Details of going concern for the group are included within the strategic report.

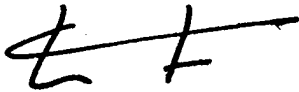
### Post balance sheet events

The Company received additional funding of \$1m from both its existing lenders, Triplepoint Capital and BMS finance in two tranches on 5 March 2019 and 4 April 2019.

### Independent Auditor

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as the auditor.

On behalf of the Board



**L Chmiewsky**  
Director  
25 June 2019

## **CAMBRIDGE BROADBAND NETWORKS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company 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 group and parent company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAMBRIDGE BROADBAND NETWORKS LIMITED

### Report on the audit of the financial statements

#### Opinion

In our opinion, Cambridge Broadband Networks Limited's group financial statements and company financial statements (the "financial statements"):

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

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### Material uncertainty relating to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the group's and company's ability to continue as a going concern. There are certain financial covenants attached to certain of the group's and company's term loans, which have been breached during the year and which are forecast to remain in breach and therefore the loan is repayable upon demand of the lender. In the absence of such a demand this loan of the group and company becomes repayable in December 2019. There is inherent uncertainty attached to the ability to renegotiate the existing loan facilities or to raise the required funds on a timely basis and to the timing and quantum of future sales and receipts thereon due to the nature of the sector in which the group and company operates and the trading cycles of the customer base and therefore, whilst mitigating actions are available to the Directors to reduce the ongoing costs of the business there is a risk that additional funding may not be obtained on a timely basis. These conditions, along with the other matters explained in note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAMBRIDGE BROADBAND NETWORKS LIMITED (CONTINUED)

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### Responsibilities for the financial statements and the audit

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAMBRIDGE BROADBAND NETWORKS LIMITED (CONTINUED)

### Responsibilities for the financial statements and the audit (continued)

#### *Auditors' 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 auditors' 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

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


### Other required reporting

#### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Matthew Mullins (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge  
28 June 2019

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### CONSOLIDATED INCOME STATEMENT For the year ended 31 December 2018

	Note	2018 \$	2017 \$
Revenue	5	23,655,539	37,151,845
Cost of sales		(14,201,900)	(20,035,510)
<b>Gross profit</b>		<b>9,453,639</b>	<b>17,116,335</b>
Research and development expenses	7	(5,033,533)	(4,121,453)
Other operating expenses, excluding depreciation, amortisation		(12,352,163)	(12,595,702)
Depreciation and amortisation		(99,856)	(80,387)
<b>Total operating expenses</b>		<b>(17,485,552)</b>	<b>(16,797,542)</b>
Research and development expenses credit		-	52,562
<b>Operating (loss)/profit</b>		<b>(8,031,913)</b>	<b>371,355</b>
Finance income	10	-	469,096
Finance costs	11	(2,624,529)	(2,702,498)
<b>Loss before tax</b>		<b>(10,656,442)</b>	<b>(1,862,047)</b>
Tax	12	1,056,333	141,050
<b>Loss for the year</b>	7	<b>(9,600,109)</b>	<b>(1,720,997)</b>

The results are all derived from continuing operations.

All of the loss for the year is attributable to the owners of the Group.

**CAMBRIDGE BROADBAND NETWORKS LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2018**

	2018	2017
	\$	\$
<b>Loss for the year</b>	<b>(9,600,109)</b>	<b>(1,720,997)</b>
<b>Items that may be reclassified subsequently to the profit and loss</b>		
Exchange differences on translation of foreign operations	-	-
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive expense for the year</b>	<b>(9,600,109)</b>	<b>(1,720,997)</b>

# CAMBRIDGE BROADBAND NETWORKS LIMITED

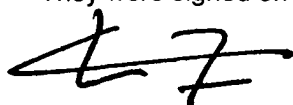
## CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 \$	2017 \$
<b>Non-current assets</b>			
Intangible assets	14	-	-
Property, plant and equipment	15	36,081	99,459
Other receivables	18	63,890	66,420
		<u>99,971</u>	<u>165,879</u>
<b>Current assets</b>			
Inventories	17	3,111,786	2,615,563
Trade and other receivables	18	10,551,463	16,264,955
Cash and cash equivalents		1,142,383	2,979,295
		<u>14,805,632</u>	<u>21,859,813</u>
<b>Total assets</b>		<u>14,905,603</u>	<u>22,025,692</u>
<b>Current liabilities</b>			
Trade and other payables	21	(16,464,709)	(12,982,898)
Borrowings	19	(7,666,800)	-
Provisions	22	(270,637)	(358,963)
		<u>(24,402,146)</u>	<u>(13,341,861)</u>
<b>Net current (liabilities)/assets</b>		<u>(9,596,514)</u>	<u>8,517,952</u>
<b>Non-current liabilities</b>			
Borrowings	19	(9,565,451)	(17,212,110)
Derivative financial instruments	20	(354,359)	(354,359)
		<u>(9,919,810)</u>	<u>(17,566,469)</u>
<b>Total liabilities</b>		<u>(34,321,956)</u>	<u>(30,908,330)</u>
<b>Net liabilities</b>		<u>(19,416,353)</u>	<u>(8,882,638)</u>
<b>Equity</b>			
Share capital	23	100,632	100,632
Share premium account		100,870,989	100,870,989
Share capital redemption reserve		98,327	98,327
Exchange reserve		(1,307,568)	(1,307,568)
Warrants reserve		3,045,281	3,288,832
Accumulated losses		(122,224,014)	(111,933,850)
<b>Total equity</b>		<u>(19,416,353)</u>	<u>(8,882,638)</u>

The Financial Statements of Cambridge Broadband Networks Limited, registered number 3879840, on pages 14 to 60 were approved by the Board of Directors and authorised for issue on 25 June 2019.

They were signed on its behalf by:



L Chmiewsky

Director

**CAMBRIDGE BROADBAND NETWORKS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2018

	Share capital \$	Share premium account \$	Share capital redemption reserve \$	Exchange reserve \$	Warrants reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 January 2017</b>	100,632	100,870,989	98,327	(1,307,568)	3,288,832	(110,212,853)	(7,161,641)
Loss for the year	-	-	-	-	-	(1,720,997)	(1,720,997)
<b>Total comprehensive expense for the year</b>	-	-	-	-	-	(1,720,997)	(1,720,997)
<b>Balance at 31 December 2017</b>	100,632	100,870,989	98,327	(1,307,568)	3,288,832	(111,933,850)	(8,882,638)
Impact of adopting IFRS 15	-	-	-	-	-	(690,055)	(690,055)
<b>Revised balance at 1 January 2018</b>	100,632	100,870,989	98,327	(1,307,568)	3,288,832	(112,623,905)	(9,572,693)
Loss for the year	-	-	-	-	-	(9,600,109)	(9,600,109)
<b>Total comprehensive expense for the year</b>	-	-	-	-	-	(9,600,109)	(9,600,109)
Release of equity for warrant instruments expired	-	-	-	-	(243,551)	-	(243,551)
<b>Balance at 31 December 2018</b>	100,632	100,870,989	98,327	(1,307,568)	3,045,281	(122,224,014)	(19,416,353)

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	2018 \$	2017 \$
<b>Net cash generated from/(used in) operating activities</b>	24	161,326	(3,378,999)
<b>Investing activities</b>			
Interest received		-	599
Purchases of property, plant and equipment	15	(36,478)	(51,053)
<b>Net cash used in investing activities</b>		(36,478)	(50,454)
<b>Financing activities</b>			
Repayments of borrowings	19	-	(1,714,564)
New loans raised	19	-	8,100,000
Warrants paid		(250,000)	
Interest paid		(1,711,760)	(1,568,648)
<b>Net cash (used in)/ generated from financing activities</b>		(1,961,760)	4,816,788
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,836,912)	1,387,335
<b>Cash and cash equivalents at beginning of year</b>		2,979,295	1,591,960
<b>Cash and cash equivalents at end of year</b>		1,142,383	2,979,295

# CAMBRIDGE BROADBAND NETWORKS LIMITED

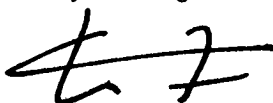
## COMPANY BALANCE SHEET

As at 31 December 2018

	Note	2018 \$	2017 \$
<b>Non-current assets</b>			
Other intangible assets	14	-	-
Property, plant and equipment	15	26,952	89,284
Other receivables	18	63,890	66,420
Investments	16	67,015	67,015
		<u>157,857</u>	<u>222,719</u>
<b>Current assets</b>			
Inventories	17	3,111,786	2,615,563
Trade and other receivables	18	11,187,787	16,173,552
Cash and cash equivalents		883,425	2,306,043
		<u>15,182,998</u>	<u>21,095,158</u>
<b>Total assets</b>		<u>15,340,855</u>	<u>21,317,877</u>
<b>Current liabilities</b>			
Trade and other payables	21	(15,260,936)	(11,157,345)
Borrowings	19	(7,666,800)	-
Provisions	22	(270,637)	(358,963)
		<u>(23,198,373)</u>	<u>(11,516,308)</u>
<b>Net current (liabilities)/assets</b>		<u>(8,015,375)</u>	<u>9,578,850</u>
<b>Non-current liabilities</b>			
Borrowings	19	(9,565,451)	(17,212,110)
Derivative financial instruments	20	(354,359)	(354,359)
		<u>(9,919,810)</u>	<u>(17,566,469)</u>
<b>Total liabilities</b>		<u>(33,118,183)</u>	<u>(29,082,777)</u>
<b>Net liabilities</b>		<u>(17,777,328)</u>	<u>(7,764,900)</u>
<b>Equity</b>			
Share capital	23	100,632	100,632
Share premium account		100,870,989	100,870,989
Share capital redemption account		98,327	98,327
Exchange reserve		(210,475)	(210,475)
Warrants reserve		3,045,281	3,288,832
Accumulated losses (loss for year \$9,078,822 (2017 - \$1,220,126))		(121,682,082)	(111,913,205)
<b>Total equity</b>		<u>(17,777,328)</u>	<u>(7,764,900)</u>

The Financial Statements of Cambridge Broadband Networks Limited, registered number 3879840, on pages 14 to 60 were approved by the Board of Directors and authorised for issue on 25 June 2019.

They were signed on its behalf by:



L Chmilewsky

Director

**CAMBRIDGE BROADBAND NETWORKS LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2018

	Share capital \$	Share premium account \$	Share capital redemption reserve \$	Exchange reserve \$	Warrants reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 January 2017</b>	100,632	100,870,989	98,327	(210,475)	3,288,832	(110,693,079)	(6,544,774)
Loss for the year	-	-	-	-	-	(1,220,126)	(1,220,126)
<b>Total comprehensive expense for the year</b>	-	-	-	-	-	(1,220,126)	(1,220,126)
<b>Balance at 31 December 2017</b>	100,632	100,870,989	98,327	(210,475)	3,288,832	(111,913,205)	(7,764,900)
Impact of adopting IFRS 15	-	-	-	-	-	(690,055)	(690,055)
<b>Balance at 31 December 2017</b>	100,632	100,870,989	98,327	(210,475)	3,288,832	(112,603,260)	(8,454,955)
Loss for the year	-	-	-	-	-	(9,078,822)	(9,078,822)
<b>Total comprehensive expense for the year</b>	-	-	-	-	-	(9,078,822)	(9,078,822)
Release of equity for warrant instruments expired	-	-	-	-	(243,551)	-	(243,551)
<b>Balance at 31 December 2018</b>	100,632	100,870,989	98,327	(210,475)	3,045,281	(121,682,082)	(17,777,328)

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### COMPANY CASH FLOW STATEMENT For the year ended 31 December 2018

	Note	2018 \$	2017 \$
<b>Net cash generated from/(used in) operating activities</b>	24	573,357	(3,280,992)
<b>Investing activities</b>			
Interest received		-	38
Purchases of property, plant and equipment	15	(34,724)	(45,006)
<b>Net cash used in investing activities</b>		(34,724)	(44,968)
<b>Financing activities</b>			
Repayments of borrowings	19	-	(1,714,564)
New loans raised	19	-	8,100,000
Interest paid		(1,711,251)	(1,568,565)
Warrants paid		(250,000)	-
<b>Net cash (used in)/ generated from financing activities</b>		(1,961,251)	4,816,871
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(1,422,618)	1,490,911
<b>Cash and cash equivalents at beginning of year</b>		2,306,043	815,132
<b>Cash and cash equivalents at end of year</b>		883,425	2,306,043

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 1. General information

Cambridge Broadband Networks Limited is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The company is limited by shares as detailed in note 23. The address of the registered office is given on page 2. The nature of the Group and Company's operations and its principal activities are set out in the business review on pages 7 to 9. Accounting policies as detailed below have been applied consistently, other than where new policies have been adopted.

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

The Group has taken the exemption available under section 408 Companies Act 2006 from presenting an income statement for the Company, Cambridge Broadband Networks Limited. The consolidated financial statements comprise the accounts of Cambridge Broadband Networks Limited, Cambridge Broadband Networks (Pty) Limited, Cambridge Broadband Networks (Nigeria) Limited, Vectastar Limited and Cambridge Broadband Networks Kenya Limited up to 31 December 2018.

### 2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

The accounting policies adopted in these consolidated financial statements are consistent with those of the financial statements for the year ended 31 December 2018, with the exception of the following standards, amendments to and interpretations of published standards adopted during the year:

#### (i) New standards, amendments and interpretations affecting amounts reported in the financial statements

- IFRS 15 Revenue from Contracts with Customers was issued in May 2014 and was effective for accounting periods beginning on or after 1 January 2018. The Group has applied the standard for the first time in its financial statements for the current year using the modified retrospective approach.

The new standard replaced existing accounting standards used to determine the measurement and timing of revenue recognition and requires an entity to align the recognition of revenue to the transfer of goods and services at an amount that then entity expects to be entitled to in exchange for those goods and services.

The directors carried out an assessment to ensure that revenue recognised in prior years was still eligible for recognition under the new standard. As a result, it was found that some revenue previously recognised in 2016 and 2017 would now not be recognised under IFRS 15 as there was uncertainty as to whether the goods would be returned and therefore there was a possibility of the revenue being reversed at some point in the future. Although the goods had been fully paid for, due to this possibility of return, an adjustment of \$1.2m to deferred revenue (contract liabilities) and \$0.5m of associated cost was made at 1 January 2018 with a net impact to accumulated losses of \$0.7m being recorded.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

- IFRS 9 Financial instruments was effective for accounting periods beginning on or after 1 January 2018. The new standard replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies but did not result in adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in paragraphs 7.2.15 and 7.2.26 of IFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of IFRS 9), management has assessed which business models apply to the financial assets held by the company and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are that assets previously classified as "loans and receivables" have been reclassified to the "amortised cost" measurement category

#### (ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not adopted early

- IFRS 16, 'Leases'. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. It is effective for accounting periods beginning on or after 1 January 2019. The Group will apply the standard for the first time in its financial statements for the year ending 31 December 2019.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and lease of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Directors have assessed the impact of this and due to a low number of leases, they believe that the impact to net assets will be not material.

### 3. Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 3. Significant accounting policies (continued)

#### Basis of consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Non-controlling interests in subsidiaries are not recorded as they are immaterial.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, subsidiaries' accounting policies are amended to ensure consistency with the policies adopted by the Group.

The Company's investments in its subsidiaries are carried at cost less provision for any impairment.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

#### Going concern

The Group and Company were loss making during the year and are actively seeking new investment and/or funding. The Company did receive additional funding of \$1m from both its existing lenders, Triplepoint Capital and BMS finance in two tranches on 5 March 2019 and 4 April 2019. The Group has also received positive correspondence from its lenders confirming their continuing support despite breaching and forecasting to remain in breach of the financial covenants.

The Directors have prepared a business plan and cash flow forecast for a twelve month period following the approval of the financial statements. The forecast contains certain assumptions about the level of future sales and the level of gross margins as well as the ability to either renegotiate the existing loan facilities or obtain new investment and/or funding ahead of the maturity of the existing loan facilities in December 2019. These assumptions are the Directors' best estimate of the future development of the business.

The Directors recognise that there are inherent uncertainties attached to the ability to renegotiate the existing loan facilities and to raise the required funds on a timely basis and to the timing and quantum of future sales and receipts thereon due to the nature of the sector in which the Group and Company operate and the trading cycles of the customer base. The Directors are aware that mitigating actions are available to reduce the ongoing costs of the business should they be needed.

There is a material uncertainty related to the ability of the Group and Company to renegotiate the existing loan facilities and to raise the required funding on a timely basis which may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, they may be unable to realise their assets and discharge their liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern. In the event that the Group and Company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including inventories, to their recoverable amount and providing for any further liabilities that might arise, as well as reclassifying non-current assets to current assets. However, the Directors believe there is a reasonable expectation that they can continue as a going concern for a period greater than twelve months from the date of approval of these financial statements.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 3. Significant accounting policies (continued)

#### Revenue recognition

Revenue has been recognised in the year ended 31 January 2018 by applying IFRS 15, the policies adopted are set out below.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, services and from performing non-recurrent engineering projects in the ordinary course of the Group's activities. The consideration is allocated between the individual performance obligations in a contract, and revenue is recognised when the associated performance obligations have been met.

Revenue for each of the group's different revenue streams and how it is recognised is set out below.

#### *Sale of goods*

Revenue is recognised in full when the goods have been delivered to the customer or in accordance with the customer's international commercial terms.

#### *Services*

Revenue is recognised when the service has been performed.

#### *Non-recurrent engineering projects*

Revenue is recognised over time based upon stage of completion of the project. The percentage of completion of the project is arrived at by a considered objective review as to the work that has been carried out, against that which is yet to be completed, to allow the project to be delivered to the customer. These reviews are carried out throughout the project. Where the Group has an enforceable right to payment for performance to date, revenue is recognised using an input method based on costs incurred as a proportion of total costs expected to be incurred. Where there is no enforceable right to payment for performance to date, revenue is recognised based on an output method based on contract milestones achieved. Any costs relating to the element of the project not yet being recognised as revenue are deferred until the associated revenue is recognised, and included within other receivables.

The comparatives for the year ended 31 December 2018 applied IAS 18 with the policy below being followed.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value added tax (VAT) and other sales-related taxes.

Revenue from the sale of goods is recognised when it is probable that economic benefits will flow to the Group and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured.

Revenue from the sale of services is recognised when the service has been performed and receipt of payment is reasonably certain. Revenue from longer-term service contracts is recognised on a straight line basis over the life of the contract.

Revenue from non-recurrent engineering is recognised on a percentage complete basis over the life of the project.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. It is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

# **CAMBRIDGE BROADBAND NETWORKS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

### **3. Significant accounting policies (continued)**

#### **Leasing**

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

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

#### **Foreign currencies**

##### **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US Dollars which is the Company's functional and presentation currency. Foreign currency adjustments arise on translating the overseas subsidiaries into the Group's presentation currency.

##### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in the period in which they arise.

##### **Group companies**

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- iii) all resulting exchange differences are recognised as a separate component of equity.

##### **Operating loss**

Operating loss is stated before finance income and finance costs.

##### **Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged to the income statement as they fall due. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 3. Significant accounting policies (continued)

#### Taxation

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

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

Deferred tax 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.

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

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost of assets (other than assets under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold improvements	18 months
Computer and laboratory equipment	1 year
Furniture and fixtures	3 years
Motor vehicles	3 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets under construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

#### Intangible assets

Intangible assets are stated at cost less accumulated depreciation and any recognised impairment loss.

Amortisation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Software	1-3 years
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The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 3. Significant accounting policies (continued)

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from the group's development shall be recognised if, and only if, all of the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

#### Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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

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

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

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 3. Significant accounting policies (continued)

#### **Financial instruments**

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

#### **Financial Assets**

All financial assets are classified as 'amortised cost'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### **Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'amortised cost'. Loans and receivables are initially measured at fair value, plus transactions costs, then are subsequently measured at amortised cost using the effective interest method, less any impairment.

#### **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### **Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 3. Significant accounting policies (continued)

#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

#### **Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' (Fair Value through Profit or Loss) or 'other financial liabilities'.

#### **Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- 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 that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'finance costs' line item in the income statement. Fair value is determined in the manner described in note 29.

#### **Other financial liabilities**

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

#### **Derivative financial instruments**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### **Derecognition of financial liabilities**

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

#### **Provisions**

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 3. Significant accounting policies (continued)

#### *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. Fair value is determined using the Black Scholes option pricing model. The fair value excludes the effect of non market-based vesting conditions.

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 balance sheet 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 the equity-settled employee benefits reserve.

For grants where options vest in instalments over the vesting period, each instalment is treated as a separate grant, which results in fair value of each instalment being spread across the vesting period of that instalment.

#### *Warrants*

The Company accounts for its warrants as either equity or liabilities based upon the characteristics and provisions of each instrument. Warrants classified as equity are recorded at fair value as of the date of issuance and no further adjustments to their valuation are made. Warrants classified as derivative liabilities and other derivative financial instruments that require separate accounting as liabilities are recorded at their fair value on the date of issuance and will be revalued on each subsequent balance sheet date until such instruments are exercised or expire, with any changes in the fair value between reporting periods recorded as other income or expense. Management estimates the fair value of these liabilities using option pricing models and assumptions that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for future financings, expected volatility, expected life, yield, and risk-free interest rate.

### 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### **Provision for impairment of trade receivables**

The Group assesses the carrying value of trade receivables based on past losses, current trading patterns and anticipated future events. The provision for impairment of trade receivables is based upon past experience and management's assessment of likely outflow.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

#### Inventory valuation

Inventories are stated at the lower of cost and net realisable value. Provisions for excess or obsolete inventory are recorded based upon assumptions about future demand and market conditions. The level of inventory provisioning required is sensitive to changes in the forecast sales of particular products which is dependent on changes in conditions in the Group's markets. If changes in actual market conditions are less favourable than those projected, additional inventory provisions may be required; similarly if changes in actual market conditions are more favourable than predicted, the Group may be able to release a proportion of the inventory provision.

### 5. Revenue

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

	2018 \$	2017 \$
Sales of goods	18,629,700	27,655,074
Rendering of services	5,025,839	9,496,771
	<u>23,655,539</u>	<u>37,151,845</u>

The Group's revenue from external customers by geographical location is detailed below:

	2018 \$	2017 \$
Africa	10,835,312	20,671,654
Middle East	4,248,138	7,561,071
Rest of world	8,572,089	8,919,120
	<u>23,655,539</u>	<u>37,151,845</u>

### 6. Reconciliation of operating loss to EBITDA

	2018 \$	2017 \$
Operating (loss)/profit	(8,031,913)	371,355
Add back:		
Depreciation and amortisation	99,856	80,387
Withholding tax and foreign taxes	298,020	33,655
Foreign exchange (gains)/losses	(410,441)	701,850
EBITDA (for KPI purposes)	<u>(8,044,478)</u>	<u>1,187,247</u>

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 7. Loss for the year

	2018 \$	2017 \$
Loss for the year has been arrived at after (crediting)/charging:		
Net foreign exchange (gains)/losses	(410,441)	701,850
Research and development costs	5,033,533	4,121,453
Depreciation of property, plant and equipment	99,856	80,387
Cost of inventories recognised as an expense	9,488,164	12,770,752
Write downs of inventories recognised as an expense	37,594	(148,721)
Impairment loss recognised on trade receivables	225,667	121,308
	<u>                    </u>	<u>                    </u>

#### 8. Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	2018 \$	2017 \$
<b>Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements</b>	<u>63,778</u>	<u>65,800</u>
<b>Fees payable to the Company's auditors for other services</b>		
- Tax services	19,866	9,300
- Other services		
<b>Total non-audit fees</b>	<u>19,866</u>	<u>9,300</u>

#### 9. Staff costs

The average monthly number of employees (including Executive Directors) was:

	Group		Company	
	2018 No.	2017 No.	2018 No.	2017 No.
Development	29	32	29	32
Sales and marketing	28	27	17	18
Administration	23	23	21	20
	<u>80</u>	<u>82</u>	<u>67</u>	<u>70</u>

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 9. Staff costs (continued)

Their aggregate remuneration comprised:

	Group 2018 \$	Group 2017 \$	Company 2018 \$	Company 2017 \$
Wages and salaries	6,699,289	7,096,891	6,096,410	6,584,591
Social security costs	689,938	696,474	688,364	687,925
Other pension costs	431,370	420,745	396,816	392,404
	<u>7,820,597</u>	<u>8,214,110</u>	<u>7,181,590</u>	<u>7,664,920</u>

	Group and company 2018 \$	2017 \$
<b>Directors' remuneration</b>		
Emoluments	983,721	801,314
Company contributions to money purchase pension schemes	12,050	11,045
	<u>995,771</u>	<u>812,359</u>

The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under long-term incentive schemes.

#### Highest paid Director

The above amounts for remuneration include the following in respect of the highest paid Director

	Group and Company 2018 \$	2017 \$
Emoluments	690,571	526,572
Company contributions to money purchase pension schemes	-	-
	<u>690,571</u>	<u>526,572</u>

None of the Directors exercised any share options in the year (2017 - none).

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 9. Staff costs (continued)

The number of Directors who were members of pension schemes was as follows:

	Group and Company 2018 No	2017 No
Money purchase pension schemes	1	1

### 10. Finance income

	2018 \$	2017 \$
Bank interest receivable	-	599
Loss arising on reassessment of amortisation Shareholders' loan	-	468,497
Fair value movement in derivative liability	-	-
Total finance income	-	469,096

### 11. Finance costs

	2018 \$	2017 \$
Interest on venture debt	1,116,136	1,231,156
Interest on credit facility	1,048,093	577,366
Interest on shareholders' loan	453,341	395,294
Fair value movement in derivative liability	-	165,342
Other	6,959	333,340
Total finance costs	2,624,529	2,702,498

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 12. Tax

	2018 \$	2017 \$
Corporation tax:		
Current year	(1,219,894)	(654,997)
Adjustments in respect of prior years	-	175,770
Foreign tax	163,561	338,176
	<u>(1,056,333)</u>	<u>(141,050)</u>

Corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated taxable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The credit for the year can be reconciled to the loss per the income statement as follows:

	2018 \$	2017 \$
Loss before tax on continuing operations	(10,656,442)	(1,862,047)
Tax at the blended UK corporation tax rate of 19.00% (2017: 19.25%)	(2,024,724)	(358,444)
Effects of:		
Expenses that are not deductible in determining taxable profit	719,426	9,107
Effect of overseas tax rates	132,484	303,116
Income not taxable	(164,624)	(14,092)
R&D uplift	(1,433,857)	(643,144)
Deferred tax not recognised	1,340,303	168,755
Surrender of tax losses for R&D tax credit	1,615,234	882,997
R&D tax credit	(1,219,894)	(665,115)
RDEC adjustment	(20,681)	-
Adjustment in respect of previous years	-	175,770
Total tax credit for the year	<u>(1,056,333)</u>	<u>(141,050)</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the balance sheet date being 20% with effect from 1 April 2015, 19% effective from 1 April 2017 and 17% effective from 1 April 2020. The closing deferred tax assets and liabilities have been calculated at 17%, on the basis that this is the rate at which those assets and liabilities are expected to unwind. At 31 December 2018, the group had unrecognised deferred tax assets of \$1,236,646 (2017: \$707,559).

#### 13. Loss attributable to the Company

As permitted by section 408 of the Companies Act 2006 no separate income statement or statement of comprehensive income is present in respect of the company. The loss attributable to the company is disclosed in the company's balance sheet.

**CAMBRIDGE BROADBAND NETWORKS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2018**

**14. Intangible assets**

	<b>Software</b> \$
<b>Group</b>	
<b>Cost</b>	
At 1 January 2017, 31 December 2017 and 31 December 2018	1,367,697
<b>Accumulated amortisation</b>	
At 1 January 2017	1,367,697
Charge for the year	-
At 31 December 2017	1,367,697
Charge for the year	-
At 31 December 2018	1,367,697
<b>Carrying amount</b>	
At 31 December 2018	-
At 31 December 2017	-
At 31 December 2016	-
	<b>Software</b> \$
<b>Company</b>	
<b>Cost</b>	
At 1 January 2017, 31 December 2017 and 31 December 2018	1,312,004
<b>Accumulated amortisation</b>	
At 1 January 2017, 31 December 2017 and 31 December 2018	1,312,004
<b>Carrying amount</b>	
At 31 December 2018	-
At 31 December 2017	-
At 31 December 2016	-

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 15. Property, plant and equipment

	Leasehold improvements \$	Computer and laboratory equipment \$	Furniture and fixtures \$	Motor vehicles \$	Total \$
<b>Group Cost</b>					
At 1 January 2017	368,368	4,360,962	370,636	19,896	5,119,862
Additions	-	46,565	4,488	-	51,053
Disposals	-	(3,649)	-	-	(3,649)
At 31 December 2017	368,368	4,403,878	375,124	19,896	5,167,266
Additions	-	34,724	1,754	-	36,478
Disposals	-	(12,853)	-	-	(12,853)
At 31 December 2018	368,368	4,425,749	376,878	19,896	5,190,891
<b>Accumulated depreciation</b>					
At 1 January 2017	368,368	4,231,137	368,019	19,896	4,987,420
Charge for the year	-	77,633	2,754	-	80,387
Disposals	-	-	-	-	-
At 31 December 2017	368,368	4,308,770	370,773	19,896	5,067,807
Charge for the year	-	97,628	2,228	-	99,856
Disposals	-	(12,853)	-	-	(12,853)
At 31 December 2018	368,368	4,393,545	373,001	19,896	5,154,810
<b>Carrying amount</b>					
At 31 December 2018	-	32,204	3,877	-	36,081
At 31 December 2017	-	95,108	4,351	-	99,459
At 31 December 2016	-	129,825	2,617	-	132,442

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 15. Property, plant and equipment (continued)

	Leasehold improvements \$	Computer and laboratory equipment \$	Furniture and fixtures \$	Motor vehicles \$	Total \$
<b>Company Cost</b>					
At 1 January 2017	338,034	4,268,654	307,306	19,896	4,933,890
Additions	-	45,006	-	-	45,006
Disposals	-	(3,649)	-	-	(3,649)
At 31 December 2017	338,034	4,310,011	307,306	19,896	4,975,247
Additions	-	34,724	-	-	34,724
Disposals	-	(12,853)	-	-	(12,853)
At 31 December 2018	338,034	4,331,882	307,306	19,896	4,997,118
<b>Accumulated depreciation</b>					
At 1 January 2017	338,034	4,143,656	307,306	19,896	4,808,892
Charge for the year	-	77,071	-	-	77,071
Disposals	-	-	-	-	-
At 31 December 2017	338,034	4,220,727	307,306	19,896	4,885,963
Charge for the year	-	97,056	-	-	97,056
Disposals	-	(12,853)	-	-	(12,853)
At 31 December 2018	338,034	4,304,930	307,306	19,896	4,970,166
<b>Carrying amount</b>					
At 31 December 2018	-	26,952	-	-	26,952
At 31 December 2017	-	89,284	-	-	89,284
At 31 December 2016	-	124,998	-	-	124,998

The Group and Company has a floating charge over its assets to secure a venture capital loan to TriplePoint Capital (TPL), and has executed a Deed of Charge and a floating charge to BMS, together with a Deed of Charge to Barclays Bank plc over a specified bank account to cover various bonds which the Company may enter into for the purposes of VAT and or customer requirements. Finally the Company has a rent deposit deed with its landlords, the Crown Estate. All of these are registered at Companies House.

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 16. Investments

The Group has no fixed asset investments.

The Company has investments in subsidiaries only, all of which are stated at cost.

				Subsidiaries \$
At 1 January 2017, 31 December 2017 and 31 December 2018				<u>67,015</u>
Name	Registered office	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %
Vectastar Limited (dormant company)	Byron House, Cambridge Business Park, Cowley Road, Cambridge, CB4 0WZ	Cambridge, United Kingdom	100	100
Cambridge Broadband Networks (Pty) Limited	Ground Floor, Suite No. 3A, Building B, Monte Circle 64, Montecasino Boulevard, Fourways, Johannesburg	South Africa	100	100
Cambridge Broadband Networks (Nigeria) Limited	1 Awolowo Road, Ikoyi, Lagos, Nigeria	Nigeria	99	99
Cambridge Broadband Networks Kenya Limited (dormant company from 1 January 2018)	5 <sup>th</sup> Avenue Office Suites, 4 <sup>th</sup> Floor, 5 <sup>th</sup> Ngong Road, Nairobi, Kenya	Kenya	99.9	99.9

All subsidiaries are directly or indirectly 100 per cent owned by the Company. The non-controlling interest in Cambridge Broadband Networks (Nigeria) Limited and Cambridge Broadband Networks Kenya Limited is Vectastar Limited. The principal activities of the subsidiaries are the sale, support and training in relation of the Company's products. Cambridge Broadband Networks Kenya Limited ceased all activities with effect from 1 January 2018.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 17. Inventories

	Group and Company	
	2018	2017
	\$	\$
Raw materials	1,547,656	606,170
Finished goods	1,564,130	2,009,393
	<u>3,111,786</u>	<u>2,615,563</u>

The replacement cost of the Group and Company's inventories at 31 December 2018 is approximately \$3,111,786 (2017 - \$2,431,704).

### 18. Trade and other receivables

#### Current assets - Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade receivables	8,977,486	14,058,892	8,319,670	13,264,613
Less: Allowance for doubtful debts	(441,526)	(226,770)	(441,526)	(226,770)
Trade receivables net	<u>8,535,960</u>	<u>13,832,122</u>	<u>7,878,144</u>	<u>13,037,843</u>
Amounts due from Group companies	-	-	1,443,932	1,404,117
Other receivables	68,199	13,124	156,771	143,910
Prepayments and contract assets	727,410	1,712,150	489,046	880,123
Research and development tax credit	1,219,894	707,559	1,219,894	707,559
	<u>10,551,463</u>	<u>16,264,955</u>	<u>11,187,787</u>	<u>16,173,552</u>

#### Non-current assets – Other receivables

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Other receivables	<u>63,890</u>	<u>66,420</u>	<u>63,890</u>	<u>66,420</u>

#### Trade receivables

The average credit period taken on sales of goods is 133 days (2017: 136 days). The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 18. Trade and other receivables (continued)

#### Ageing of sales invoices due but not impaired receivables

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
30-60 days	1,580,699	3,017,888	1,557,979	2,311,330
60-90 days	324,336	1,054,168	314,019	995,235
90-120 days	1,280,125	4,052,183	1,269,138	4,052,183
120 days +	2,625,646	3,876,075	2,615,403	3,869,082
Total	<u>5,810,806</u>	<u>12,000,314</u>	<u>5,756,539</u>	<u>11,227,830</u>

#### Ageing of impaired receivables

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
120 days +	<u>441,526</u>	<u>226,770</u>	<u>441,526</u>	<u>226,770</u>

#### Movement in the allowance for doubtful debts

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Balance at the beginning of the year	(226,770)	(278,689)	(226,770)	(177,717)
Impairment losses recognised	(410,626)	(195,870)	(410,626)	(195,870)
Amounts written off during the year as uncollectible	10,911	173,227	10,911	72,255
Impairment losses reversed	184,959	74,562	184,959	74,562
Balance at the end of the year	<u>(441,526)</u>	<u>(226,770)</u>	<u>(441,526)</u>	<u>(226,770)</u>

#### Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The nature of the Group business is such that, on occasion, sales performance will lead to concentration of credit risk in a particular customer or customers. The Group's largest customer accounts for \$1,828,721 of the trade receivables year-end balance (2017: \$3,329,394). This customer balance was largely paid in full subsequent to the year end.

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 18. Trade and other receivables (continued)

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash and cash equivalents	1,142,383	2,979,295	883,425	2,306,043
Trade and other receivables excluding prepayments	10,279,820	15,927,131	10,956,030	15,899,322

The maximum exposure to credit risk for total trade receivables at the reporting date by geographic region was:

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Africa	3,934,486	6,735,799	3,276,670	5,941,520
Middle East	3,291,398	5,181,628	3,291,398	5,181,628
Rest of World	1,310,076	1,914,695	1,310,076	1,914,695

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 19. Borrowings

#### Group and Company

	2018 \$	2017 \$
<b>Secured borrowing at amortised cost</b>		
Venture debt funding	5,873,952	5,873,952
Credit facility	7,666,800	8,100,000
Shareholders' loan	3,691,499	3,238,158
	<u>17,232,251</u>	<u>17,212,110</u>
<b>Total borrowings</b>		
Amount due for settlement within 12 months	<u>7,666,800</u>	<u>-</u>
Amount due for settlement after 12 months	<u>9,565,451</u>	<u>17,212,110</u>

#### Group and Company

	2018 \$	2017 \$
<b>Analysis of borrowings by currency:</b>		
US dollars	9,565,451	9,112,110
GB pounds	7,666,800	8,100,000
	<u>17,232,251</u>	<u>17,212,110</u>

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 19. Borrowings (continued)

The other principal features of the Group's borrowings are as follows.

(i) The Group has the following current working capital facility.

**TriplePoint Capital:** A loan of \$6m was taken out on 3 September 2014. Repayments have been suspended with an interest only option taken for the remainder of the loan. The loan is secured by a charge over certain of the Group's assets. The loan carries an interest rate at 14.5 per cent. Warrants over AA preferred shares were issued in 2014 and are accounted for at fair value through the profit and loss. As at 31st December 2018 their fair value was assessed as nil (2017: nil). Upon the renewal of this loan in December 2014, loan fees of \$0.2m were payable. The balance of this loan at the year end was \$5.9m (2017: \$5.9m). This loan matures on 31 December 2021.

**BMS Finance:** On 23 December 2016, a new loan agreement was signed with a credit facility of \$5m. This was a line of credit secured on the Group's book debts. The interest rate on the loan was 13% per annum and the loan was secured by a debenture over certain of the Group's assets. On 19 December 2017 this loan was renewed as a debt financing loan with an increased facility of £6m for 2 years. The interest rate remains at 13% and the loan is secured by a debenture over certain of the Group's assets. At year end, there was an outstanding liability of \$7.7m (2017: \$8.1m). Warrants were also issued for AA preferred shares and/or BB preferred shares representing 4% of the fully diluted share capital with an exercise period of 20 years after commencement date. A liability of \$354,359 was recognised in 2017 in respect of these warrants, as disclosed in note 20. This loan matures on 19 December 2019.

There is an inter-creditor agreement, which regulates priorities between the two lenders.

**Shareholders' loan:** In January and February 2016, the shareholders loaned \$2.1m and \$0.2m respectively to the company by way of unsecured convertible loan notes. On 29 June 2016, 90% of the loan notes prior to December 2015 were converted into BB preferred shares leaving an unconverted balance of \$0.8m. There have been no further loan notes issued during 2017. The total amounts loaned as at 31 December 2018 was \$3.1m (2017: \$3.1m). These notes carry a fixed interest rate of 8 per cent and are automatically converted into fully paid senior shares at the conversion price on the next qualified financing. In addition the holders of the loan notes have the right to convert to equity at a 25% discount to the last financing round. The embedded derivative associated with this conversion options is accounted for at fair value through the profit and loss. At 31st December 2018 the fair value was assessed as nil (2017: nil).

The weighted average interest rates paid during the year were as follows:

	2018	2017	2016
	%	%	%
Group and Company			
Debt funding	16.50	14.50	13.00
Credit facility	13.00	13.00	13.50
Shareholders' loan	8.00	8.00	8.00

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 20. Derivative financial instruments

	Non current	
	2018	2017
	\$	\$
Group and company		
Financial liabilities carried at fair value through profit or loss (FVTPL)	354,359	354,359

Warrants were issued to BMS in December 2017 for AA preferred shares and/or BB preferred shares representing 4% of the fully diluted share capital with an exercise period of 20 years after commencement date. Using the Black Scholes option pricing model, the fair value of these warrants was deemed to be \$354,359 (2017: \$354,359). The other derivative financial instrument set out in note 19 has a fair value of nil (2017: nil).

Further details of derivative financial instruments are provided in note 29.

### 21. Trade and other payables

#### Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade payables	11,046,786	6,888,531	10,370,904	6,537,435
Accruals and contract liabilities	4,672,652	4,985,345	4,157,601	4,019,080
Other payables	745,271	1,109,022	732,431	600,830
	<u>16,464,709</u>	<u>12,982,898</u>	<u>15,260,936</u>	<u>11,157,345</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 278 days (2017: 125). The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 22. Provisions

	2018 \$	2017 \$
<b>Group and Company</b>		
Warranty provision	169,207	257,533
Other	101,430	101,430
	<u>270,637</u>	<u>358,963</u>
Current	270,637	358,963
Non-current	-	-
	<u>270,637</u>	<u>358,963</u>

	Warranty provision \$	Other provisions \$
At 1 January 2017	189,313	101,430
Increase in provision	236,963	-
Utilisation of provision	(168,743)	-
At 31 December 2017	257,533	101,430
Utilisation of provision	(49,996)	-
Release of unused provision	(38,330)	-
At 31 December 2018	<u>169,207</u>	<u>101,430</u>

The warranty provision represents management's best estimate of the Group's liability under 12-month warranties granted based on past experience and industry averages for defective products.

The other provision is in respect of an IR35 contractors potential income tax liability.

#### 23. Share capital

	2018 \$	2017 \$
Issued and fully paid:		
279,609 (2017: 279,609) ordinary shares of 0.01p each	4,102	4,102
3,622,347 (2017: 3,622,347) 'AA' preferred shares of 0.01p each	55,037	55,037
2,880,503 (2017: 2,880,503) 'BB' preferred shares of 0.01p each	41,493	41,493
	<u>100,632</u>	<u>100,632</u>

Authorised share capital and issued share capital for ordinary, 'AA' preferred and 'BB' preferred shares are the same. AA Ordinary shares are authorised but not yet issued.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 23. Share capital (continued)

	Ordinary shares No	'AA' pref. shares No	'BB' pref. shares No
At 1 January 2018	279,609	3,622,347	2,880,503
Issued in year	-	-	-
At 31 December 2018	<u>279,609</u>	<u>3,622,347</u>	<u>2,880,503</u>

#### Rights of shares

The following rights attached to shares in issue from 29 June 2016.

On a return of capital on liquidation or otherwise the surplus assets of the Company remaining after payment of its liabilities (which shall, for the avoidance of doubt, include all sums due and payable in respect of the Loan Notes pursuant to the terms of the Loan Note Instruments (including any unpaid interest thereon)) shall be applied in the following order and priority (and shall, in the case of any payment to Ordinary Shareholders, include accrued but unpaid dividends):

- first, in paying to the BB Preferred Shareholders and the AA Ordinary Shareholders such amount of the surplus assets in the following manner, until each of the BB Preferred Shareholders has received a sum equal to the BB Preference Amount per BB Preferred Share held by him:
  - 17% shall be paid to the AA Ordinary Shareholders, pro rata according to the number of the AA Ordinary Shares held by them; and
  - 83% shall be paid to the BB Preferred Shareholders, pro rata according to the number of the BB Preferred Shares held by them,

provided that if there are insufficient surplus assets available for allocation such that each of the BB Preferred Shareholders receives a sum equal to the BB Preference Amount per BB Preferred Share held by him, the actual amount available shall be allocated; and
- second, in paying to the AA Preferred Shareholders and the AA Ordinary Shareholders the remaining surplus assets in the following manner, until each of the AA Preferred Shareholders has received a sum equal to the AA Preference Amount per AA Preferred Share held by him :
  - 17% shall be paid to the AA Ordinary Shareholders, pro rata according to the number of the AA Ordinary Shares held by them; and
  - 83% shall be paid to the AA Preferred Shareholders, pro rata according to the number of the AA Preferred Shares held by them,

provided that if there are insufficient surplus assets available for allocation such that each AA Preferred Shareholder receives a sum equal to the AA Preference Amount per AA Preferred Share held by him, the actual amount available shall be allocated; and
- once the payments have been made, the balance (if any) shall be distributed amongst the holders of the Ordinary Shares, AA Ordinary Shares, AA Preferred Shares and BB Preferred Shares (pari passu as if they were one class of share) pro rata according to the number of the Shares held by them respectively which shall, in the case of the AA Preferred Shares and BB Preferred Shares, be calculated as if the Shares had been converted to Ordinary Shares immediately prior to such distribution.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 24. Notes to the consolidated cash flow statement

	2018 \$	2017 \$
<b>Group</b>		
Loss before tax	(10,656,442)	(1,862,047)
<b>Adjustments for:</b>		
Finance costs	2,624,529	2,702,498
Finance income	-	(469,096)
Depreciation of property, plant and equipment	99,856	80,387
Research and Development expenditure credit	-	(52,562)
Loss on disposal of fixed assets	-	3,649
<b>Operating cash flows before movement in working capital</b>	<u>(7,932,057)</u>	<u>402,829</u>
(Decrease)/increase in provisions	(88,326)	68,220
Decrease in inventories	59,810	480,606
Decrease/(increase) in receivables	6,192,205	(3,431,024)
Increase/(decrease) in payables	1,349,560	(2,174,668)
<b>Cash used in operations</b>	<u>(418,808)</u>	<u>(4,654,037)</u>
Research and development tax credit receipt	743,695	1,613,214
Withholding tax	(163,561)	(338,176)
<b>Net cash generated from/(used in) operating activities</b>	<u>161,326</u>	<u>(3,378,999)</u>

### Reconciliation of financing liabilities

	1 January 2018 \$	Cash flows \$	Interest expense \$	Other non- cash flows \$	31 December 2018 \$
<b>Borrowings</b>					
Venture debt funding	5,873,952	(747,088)	1,116,136	(369,048)	5,873,952
Credit facility	8,100,000	(964,163)	1,048,093	(517,130)	7,666,800
Shareholders' loan	3,238,158	-	453,341	-	3,691,499
	<u>17,212,110</u>	<u>(1,711,251)</u>	<u>2,617,570</u>	<u>(886,178)</u>	<u>17,232,251</u>

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 24. Notes to the consolidated cash flow statement (continued)

#### Reconciliation of financing liabilities

	1 January 2017 \$	Cash flows \$	Interest expense \$	Other non- cash flows \$	31 December 2017 \$
<b>Borrowings</b>					
Venture debt funding	5,650,590	(1,008,388)	1,231,156	594	5,873,952
Credit facility	1,714,564	5,825,260	577,366	(17,190)	8,100,000
Shareholders' loan	3,311,361	-	395,294	(468,497)	3,238,158
	<u>10,676,515</u>	<u>4,816,872</u>	<u>2,203,816</u>	<u>(485,093)</u>	<u>17,212,110</u>

### 24. Notes to the company cash flow statement

	2018 \$	2017 \$
<b>Company</b>		
Loss before tax	(10,135,140)	(1,517,212)
<b>Adjustments for:</b>		
Finance costs	2,624,020	2,702,415
Finance income	-	(468,535)
Depreciation of property, plant and equipment	97,056	77,071
Research and Development expenditure credit	-	(52,562)
Loss on disposal of fixed assets	-	3,649
<b>Operating cash flows before movement in working capital</b>	<u>(7,414,064)</u>	<u>744,826</u>
(Decrease)/increase in provisions	(88,326)	68,220
Decrease in inventories	59,810	480,606
Decrease/(increase) in receivables	5,464,493	(3,282,011)
Increase/(decrease) in payables	1,971,321	(2,723,719)
<b>Cash used in operations</b>	<u>(6,766)</u>	<u>(4,712,078)</u>
Research and development tax credit receipt	743,684	1,613,214
Withholding tax	(163,561)	(182,128)
<b>Net cash generated from/(used in) operating activities</b>	<u>573,357</u>	<u>(3,280,992)</u>

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 24. Notes to the company cash flow statement (continued)

##### Reconciliation of financing liabilities

	1 January 2018 \$	Cash flows \$	Interest expense \$	Other non- cash flows \$	31 December 2018 \$
<b>Borrowings</b>					
Venture debt funding	5,873,952	(747,088)	1,116,136	(369,048)	5,873,952
Credit facility	8,100,000	(964,163)	1,048,093	(517,130)	7,666,800
Shareholders' loan	3,238,158	-	453,341	-	3,691,499
	<u>17,212,110</u>	<u>(1,711,251)</u>	<u>2,617,570</u>	<u>(886,178)</u>	<u>17,232,251</u>

##### Reconciliation of financing liabilities

	1 January 2017 \$	Cash flows \$	Interest expense \$	Other non- cash flows \$	31 December 2017 \$
<b>Borrowings</b>					
Venture debt funding	5,650,590	(1,008,388)	1,231,156	594	5,873,952
Credit facility	1,714,564	5,825,260	577,366	(17,190)	8,100,000
Shareholders' loan	3,311,361	-	395,294	(468,497)	3,238,158
	<u>10,676,515</u>	<u>4,816,872</u>	<u>2,203,816</u>	<u>(485,093)</u>	<u>17,212,110</u>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

#### 25. Contingent liabilities

At the reporting date the Group and Company had no material contingent liabilities.

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 26. Operating lease arrangements

	2018	2017
	\$	\$
Minimum lease payments under operating leases recognised as an expense in the year	684,931	591,959

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

	2018	2017
	\$	\$
Within one year	462,468	165,790
In the second to fifth years inclusive	1,214,625	49,874
	<u>1,677,093</u>	<u>215,664</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for terms ranging from one to ten years. Leases with terms in excess of one year are subject to rent reviews at periodic intervals ranging between three and five years.

#### 27. Share based payments

The share schemes are currently suspended to new members and will be replaced in 2019. Options to subscribe for ordinary shares have been granted, pursuant to the Company's Enterprise Management Incentive scheme and unapproved employee share option scheme as follows:

	Number of shares under option	Subscription price per share	Exercise period
Enterprise Management Incentive scheme	1,044	£0.01	4 years <sup>1</sup>
Unapproved share Option scheme	187	£0.01	4 years <sup>1</sup>

1. 25% of options vest one year after the vesting start date and the remaining 75% are exercisable over the three subsequent years, prorated on a quarterly basis.

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 27. Share based payments (continued)

##### Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price of 1p per share. Vesting conditions are detailed above. Options are forfeited if the employee leaves the Group before the options vest. Details of the share options outstanding during the year are as follows.

	Number of share options	2018 Weighted average exercise price (in £)	Number of share options	2017 Weighted average exercise price (in £)
Outstanding at beginning of year	1,231	0.01	1,263	0.01
Expired during the year	(209)	0.01	(32)	0.01
Outstanding at the end of the year	<u>1,022</u>	0.01	<u>1,231</u>	0.01
Exercisable at the end of the year	<u>1,022</u>	0.01	<u>1,231</u>	0.01

The options outstanding at 31 December 2018 had a weighted average exercise price of £0.01, and a weighted average remaining contractual life of 3 years. There were no options granted in 2018 or 2017.

The Group recognised total expenses of \$nil related to equity-settled share-based payment transactions in both 2018 and 2017.

#### 28. Retirement benefit schemes

##### Defined contribution schemes

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The total cost recorded in the income statement of \$431,370 (2017: \$420,745) represents contributions payable to this scheme by the Group at rates specified in the rules of the plan. As at 31 December 2018, contributions of \$52,614 (2017: \$60,317) due in respect of the current reporting period had not been paid over to the scheme.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 29. Financial Instruments

#### Financial risk management

The Group has exposure to the following key risks related to its financial instruments:

- (i) Market risk;
- (ii) Credit risk; and
- (iii) Liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee of the Board oversees how management monitors compliance with the Group's risk management framework in relation to the risks faced by the Group.

#### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents, loans as disclosed in note 19 and equity comprising issued share capital, as disclosed in note 23, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

#### Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

#### Categories of financial instruments

	Group 2018 \$	2017 \$	Company 2018 \$	2017 \$
<b>Financial assets held at amortised cost</b>				
<b>(2017: loans and receivables)</b>				
Loans, receivables, cash and cash equivalents	11,486,092	18,972,817	11,903,346	18,271,785
<b>Financial liabilities</b>				
Amortised cost	33,967,600	30,553,970	32,763,823	28,728,417
Fair value through profit and loss	354,359	354,359	354,359	354,359

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 29. Financial Instruments (continued)

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group manages foreign currency risk as detailed below. The Group does not currently enter into any interest rates swaps or other derivative financial instruments to mitigate the risk of rising interest rates.

#### Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

#### Foreign currency sensitivity analysis

Substantially all of the Group's sales and cost of sales are denominated in US dollars, the functional currency of the Group. A substantial proportion of the Group's fixed costs are denominated in Sterling. This exposure to different currencies may result in gains or losses with respect to movements in foreign exchange rates and the impact of such fluctuations could be material.

The carrying amounts of the Group's sterling denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2018	2017
<b>Group and Company</b>	\$	\$
Assets	1,588,050	1,614,375
Liabilities	10,498,933	10,747,424

#### Foreign currency sensitivity analysis

A 10 per cent strengthening of the US dollar against GBP Sterling would have decreased equity and profit or increased loss after tax by the amounts shown below as at the reporting date shown.

	Equity	Profit or loss
<b>Group and Company</b>	\$	\$
<b>2018</b>		
GBP	-	(891,088)
<b>2017</b>		
GBP	-	(913,305)

A 10 per cent weakening of the US Dollar against GBP sterling would have had the equal but opposite effect, on the basis that all other variables remain constant.

The movement in profit for the year is mainly attributable to the Group's exposure to exchange movements in sterling denominated monetary assets and liabilities.

In management's opinion, the sensitivity analysis above is not fully representative of the inherent foreign exchange risk to which the Group is exposed. The year end exposure does not reflect the exposure during the year.

## **CAMBRIDGE BROADBAND NETWORKS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

#### **29. Financial Instruments (continued)**

##### **Interest rate risk management**

The Group has no significant direct exposure to fluctuations in interest rates as borrowings are at fixed interest rates and cash is deposited at fixed rates.

##### **Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared on assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A ten per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been ten per cent higher and all other variables were held constant, the Group's loss for the year ended 31 December 2018 would decrease by nil (2017: \$8k). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

##### **Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a cautious approach to credit risk management, only entering into transactions with counterparties with recognised credit ratings; either through independent third party appraisal or through the Group's own trading records and other publicly available financial information. The Group's exposure and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits.

The Group seeks to limit credit risk on liquid funds through trading only with counterparties that are banks with high credit ratings assigned by international credit rating agencies.

Disclosures related to the credit risk associated with trade receivables are shown in note 18.

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 29. Financial Instruments (continued)

##### Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Group	Average weighted interest rate	Less than 1 year	1-2 years	2+ years	Total
		\$	\$	\$	\$
<b>31 December 2018</b>					
Non-interest bearing		10,498,933	-	354,359	10,853,292
Fixed interest rate instruments		7,666,800	3,691,499	5,873,952	17,232,251
	13.2%	<u>18,165,733</u>	<u>3,691,499</u>	<u>6,228,311</u>	<u>28,085,543</u>
<b>31 December 2017</b>					
Non-interest bearing		10,747,424	-	354,359	11,101,783
Fixed interest rate instruments		-	11,338,157	5,873,952	17,212,109
	12.5%	<u>10,747,424</u>	<u>11,338,157</u>	<u>6,228,311</u>	<u>28,313,892</u>

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

#### 29. Financial Instruments (continued)

Company	Average weighted interest rate	Less than 1 year	1-2 years	2+ years	Total
		\$	\$	\$	\$
<b>31 December 2018</b>		10,498,933	-	354,359	10,853,292
Non-interest bearing		7,666,800	3,691,499	5,873,952	17,232,251
Fixed interest rate instruments	13.2%	18,165,733	3,691,499	6,228,311	28,085,543
		10,498,933	-	354,359	10,853,292
<b>31 December 2017</b>		10,747,424	-	354,359	11,101,783
Non-interest bearing		-	11,338,157	5,873,952	17,212,109
Fixed interest rate instruments	12.5%	10,747,424	11,338,157	6,228,311	28,313,892

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

#### Fair value of financial instruments

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's finance department performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values. The finance department reports directly to the Chief Financial Officer (CFO). Discussions of valuation processes and results are held between the CFO and the finance department annually, in line with the Group's reporting dates.

# CAMBRIDGE BROADBAND NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

### 29. Financial Instruments (continued)

	<b>Level 3</b>
<b>2018</b>	<b>\$</b>
<b>Financial liabilities at FVTPL</b>	
Derivative financial liabilities	354,359
Total	<u>354,359</u>
<b>2017</b>	<b>\$</b>
<b>Financial liabilities at FVTPL</b>	
Derivative financial liabilities	354,359
Total	<u>354,359</u>
<b>2016</b>	<b>\$</b>
<b>Financial liabilities at FVTPL</b>	
Derivative financial liabilities	189,017
Total	<u>189,017</u>

The fair value of the financial liabilities was measured on Level 3 fair value measurement bases.

#### Reconciliation of level 3 fair value measurements of financial liabilities:

	<b>Derivative financial liabilities</b>
	<b>\$</b>
Balance at 1 January 2017	189,017
Total gain in profit and loss	165,342
Balance at 31 December 2017	<u>354,359</u>
Total gain in profit and loss	-
Balance at 31 December 2018	<u>354,359</u>

#### Significant assumptions used in determining fair value of financial liabilities

The fair value of the liability component of the financial liabilities is determined assuming the warrants have an expected life of 3 years, an exercise price of \$10, annualised volatility of 62.5% and a discount rate of 3%.

## CAMBRIDGE BROADBAND NETWORKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 30. Related party transactions

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Group companies did not enter into any transactions with related parties who are not members of the Group.

##### Trading transactions

During the year, \$435,233 (2017: \$546,260) was loaned from the company to its subsidiary, Cambridge Broadband Networks (Pty) Limited. At the year end, this amount was fully provided against.

##### Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group and Company is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

Group and Company	2018 \$	2017 \$
Short-term employee benefits	983,721	801,314
Post-employment benefits	12,050	11,045
	<u>995,771</u>	<u>812,359</u>

There were no gains made on the exercise of share options or the value of any shares or share options received under long-term incentive schemes (2017: nil).

#### 31. Ultimate controlling party

The majority of the Company's shares are held by independently managed private equity funds. The directors are therefore of the view that there is no single controlling party.

#### 32. Events after the balance sheet date

On 5 March 2019 additional financing of \$1m was granted from existing lenders. This is payable in two tranches with the first tranche of \$0.5m being received on 5 March 2019 and the second tranche of \$0.5m being received on 5 April 2019.