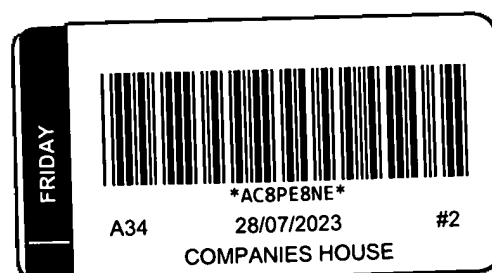


metaswitch

ANNUAL REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 August 2022



**METASWITCH NETWORKS LTD
ANNUAL REPORT & FINANCIAL STATEMENTS 2022
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METASWITCH NETWORKS LTD STRATEGIC REPORT FOR THE YEAR ENDED 31 August 2022

The Directors (the "Directors") of Metaswitch Networks Ltd (the "Company" or "Metaswitch") present their Annual Report, together with the financial statements of the Company and Independent Auditor's Report, for the year ended 31 August 2022 (the "Reporting Period"). The Directors, in preparing the Strategic Report, have complied with s414C of the Companies Act 2006.

Operating highlights

The results for the year are shown on page 13. The Company recorded profit before tax of \$17,872,000 (2021: profit before tax of \$24,147,000). This reduction is due to additional investment in research and development, increasing expenditure from \$63,232,000 in 2021 to \$72,669,000 in the year under review. General and administrative expenses have also increased due to higher royalty charges. Sales and marketing expenses of \$5,615,000 (2021: \$42,171,000) reduced driven by a fall in the sales and marketing commission due to subsidiaries of the Company, as these subsidiaries had reduced activity during the year. The Company saw year over year decreases in its other key performance indicators (KPIs) with fiscal year 2022 revenue of \$254,471,000 (2021: \$255,049,000), third party revenue of \$171,597,000 (2021: \$180,996,000), the decline driven by a reduction in fixed line voice hardware and software sales, and operating profit of \$17,751,000 (2021: \$24,023,000).

During the prior year the employees of the Company were transferred to employment contracts with Microsoft Limited, another group company. Under the terms of the Agreement to Provide Workers/Personnel dated 1 March 2021 Microsoft Limited continues to provide these personnel at cost to the Company to support the activities of Metaswitch.

The Company continues to receive revenue under an agreement with Microsoft for the research and development services it provides, and pays royalties to Microsoft entities in return for license to use technology relating to Metaswitch products and services.

The Directors feel that the Company is in a sound position for the coming period, and is committed to our mission of making Azure, Microsoft's cloud computing service, the world's trusted computer for communication. The Company, working within the Microsoft group, is uniquely placed to deliver the Azure platform to telecom operators as the industry moves to 5G.

Metaswitch continues to transform its business to capitalize on the digital transformation of telecommunications core network infrastructure to hybrid cloud and 5G deployments with a portfolio of software-based, open, scalable network functions and innovative applications. We also continued to replicate our historical success with fixed line traditional operators by delivering "full stack" (from core to application) solutions for mobile and converged service providers. As a subsidiary of Microsoft Corporation, Metaswitch expects to become the productivity and platform company for the mobile-first and cloud-first world.

Metaswitch will continue to support Microsoft Corporation's efforts in creating new opportunities for partners, increasing customer satisfaction, and improving service excellence throughout our offerings.

Metaswitch vision

Metaswitch's mission is to be the preeminent developer of the ultra-high-performance network software that powers cloud-centric communication services and platforms and to make Microsoft's Azure cloud platform the world's trusted computer for communication.

Our mission is to work fast within Azure in delivering a cloud solution, and to stay ahead of our competitors. We need to execute and create a carrier grade hybrid cloud and use our first party products to prove the value of cloud overall. We will continue to meet customers where they are today, working with operators to maintain and expand their competitive positions and to chart a path to a more cloud-centric future but starting from where their underlying network functions reside today. We also see considerable opportunity in new enterprise markets, where the availability of wireless spectrum for both LTE and 5G, will enable system integrators and managed service providers to deliver solutions that meet the needs of large enterprises for high density device connectivity, workflow automation and low latency applications that accelerate the digital transformation of their business.

As the industry moves to 5G, operators will need to advance the virtualization of their core networks in line with standardized new models for service-based architectures. These architectures confirm that a hybrid cloud deployment model will be the only way to meet the scale, and low latency requirements that a host of next generation services extending to potentially millions of devices will demand. Adoption of the cloud will not be an option, or a nice-to-have, it will be the event horizon past which savvy operators will be able to fundamentally improve the cost-efficiencies, service innovation and average revenues per users that will define their success.

METASWITCH NETWORKS LTD STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 August 2022

Metaswitch vision (continued)

As operators embrace the cloud to meet a myriad of 5G opportunities (enhanced mobile broadband, ultra-low-latency communications, fixed wireless access) and more fully integrate their communications networks with cloud-based applications and services (artificial intelligence, analytics, internet of things), we believe that they will also see and accelerate the opportunity to rearchitect existing services for the cloud as well. The cloud will not only be a home for "exciting new stuff" but also a means by which the costs of providing existing services (digital voice, voicemail, session border control and security) can be lowered, and the risks of existing platforms going "end of life" can be eliminated.

Metaswitch has a long history of working with operators, selling our products, solutions, and technologies to hundreds of telco operators worldwide. Our vision is to continue creating modern alternatives to network infrastructure, enabling operators to deliver existing and value-added services with greater cost efficiency and lower capital investment than they've faced in the past.

Products and solutions

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

Our software enables high-performance, highly reliable voice, video, messaging, and collaboration services while also powering high-volume traffic processing in 5G networks. At the border of telecom and cable networks our software provides security, interconnectivity, and network analytics. On the screens of mobile devices and personal computers our software connects to, or defines, unified communications and collaboration environments for work and home.

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

Market opportunities addressed by our products and solutions include

- Voice over LTE (VoLTE) and Voice over WiFi
- Open Service Creation
- IMS
- Unified Communications and Collaboration
- Voice Network Transformation
- Voice Interconnect
- Robocall Blocking and caller ID fraud prevention

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

As part of Microsoft's Azure for Operators, Metaswitch is innovating in its powerful Voice portfolio, deep domain expertise, and are opening new segments for Teams like SMB, via Teams Operator Connect. Key products in this area will include Azure Session Border Controller (SBC) & Azure Voicemail.

METASWITCH NETWORKS LTD STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 August 2022

Principal risks and uncertainties

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

- COVID -19 – To date management consider that both operationally and financially the impact of COVID-19 is not significant, however uncertainty around the scale, timing and impact of COVID-19 means that any assessment is speculative and it remains a principal risk and uncertainty to the Company.
- Technology – the market for communications software and services is characterized by rapid technological advances, frequent introductions of new products, evolving industry standards and recurring or unanticipated changes in customer requirements. In particular, the communications industry is moving away from hardware-centric networks toward software based networks.
- IP infringement claims – such claims are common in our industry. Following the acquisition by Microsoft in 2020 intellectual property is held outside the Company, mitigating the risk for Metaswitch Networks Limited. Microsoft seeks to mitigate their risk through patent, copyright and trademark law. However, third parties, including competitors, have and could in the future assert infringement claims, which could force the payment of royalties and/or redesign of software and therefore incur significant costs.
- Competition – the Company operates in a competitive market with significant product innovations, so we are subject to the threat of our competitors developing new products in our markets before we make corresponding updates and developments to our own product range, in order to mitigate against this risk the Company is continuously seeking to build on and widen our product portfolio.
- IT security – system downtime or a security breach, whether through cyber-attacks or technology failure, could significantly affect the product and services offered to our customers, in addition to the Company's own internal IT systems. The Company works continuously to improve the robustness and security of the Company's information technology systems.

Social responsibility

Everywhere we operate, Metaswitch focuses on contributing in a positive way. We are committed to conducting our business with integrity, developing technology that will have a positive impact on the world in which we live, investing in and supporting our local communities and working to minimize our impact on the environment.

Environment

We embrace corporate environmental sustainability, not just in the areas of recycling and reducing our carbon footprint, but also in developing leading-edge technology to enhance the way we live and the impact we have on our planet. As part of Microsoft we share the intention to become carbon negative by 2030, setting a roadmap to becoming water positive by 2030 and zero waste across our direct footprint by 2030. Microsoft uses annual standalone environmental sustainability reports to revisit these commitments and track lessons learned and progress to date. Given the business model of the Company, whereby employee costs, property costs and linked expenditure is incurred through cross-charges with other Group companies, further environmental disclosures are made within the entity where the cost is initially incurred.

METASWITCH NETWORKS LTD STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 August 2022

Diversity and inclusion

Metaswitch stands against racism, discrimination, injustice and violence. We hold ourselves, our customers and our industry partners to account in the rejection of discrimination in any form.

- Metaswitch will stand up to and call out discrimination against our employees, wherever it comes from, and act to support them. We will not accommodate any form of racism, sexism, homophobia, transphobia, or discrimination of any form – even from customers that we sell to.
- Metaswitch is aware that we all have unconscious biases and will monitor and work to remove them from our recruitment and internal promotion processes. Metaswitch will not produce any communication material that reinforces discrimination or unconscious bias in its terminology or imagery.
- Metaswitch stands by employees who peacefully support and/or politically organize anti-racist and anti-discriminatory causes. Metaswitch matches donations for employees who gift to just and valuable causes.

As part of the wider Microsoft group the Company is committed to the Microsoft mission to consciously, intentionally include everyone. The dedicated Microsoft team establishes and promotes long-range strategies on the execution of Diversity & Inclusion at Microsoft. Initiatives include the Racial Equality Initiative, Global LGBTQI+ communities and a focus on Women in technology.

Section 172 Statement

Section 172 (1) Statement Section 172 of the Companies Act 2006 requires a director of a company to act in a way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The Directors acknowledge their responsibility, and the following disclosure sets out how the Directors have regard to the matters set out in section 172 (1) (a)-(f).

The Company is a subsidiary of the Microsoft group and therefore consideration of stakeholder engagement is intrinsically linked to the wider Microsoft strategy in order to achieve a greater aligned impact. Microsoft seek to ensure that all stakeholder voices are considered and gain input and outside perspectives into the company to inform business decisions through a variety of feedback channels. Microsoft is committed to conducting business in a way that is principled, transparent, and accountable and the foundations of this commitment is expressed in Microsoft's Standards of Business Conduct which apply to all employees. These standards require legal compliance and also broader commitments to address accessibility, diversity and inclusion, human rights and privacy. In support of these Standards Microsoft strive to build a workplace that embraces trust where every employee feels free to ask questions and raise concerns when something doesn't seem right. Microsoft uses these principles to ensure that it acts fairly between employees. Microsoft offers employees, customers, suppliers, and other external parties' multiple ways to report compliance concerns. The senior leadership team's input as well as the published operational metrics are the main vehicle for the board to balance different stakeholder interests when making decisions.

METASWITCH NETWORKS LTD STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 August 2022

Customers

Customer feedback and insights are critical in shaping how the business enhances existing products and services and develop new ones. Insights from customers are gained through online feedback, support communities, product satisfaction surveys, usability studies, research forums, business account managers and our customer service representatives. The senior leadership team uses customer feedback to allocate investments into engineering, support and professional services to better serve our customers. The need to act fairly with regards to customer needs and engineers personal development is taken into account when making these allocations.

Employees

Under the terms of the Agreement to Provide Workers/Personnel dated 1 March 2021 Microsoft Limited provides personnel at cost to the Company to support the activities of Metaswitch. Attracting and retaining talented and diverse personnel is critical to the Company's long-term success. To support this the Company seeks to create a respectful, rewarding, diverse and inclusive work environment. This is focused around the concept of a growth mindset which starts with a belief that everyone can grow and develop. Feedback is sought in multiple ways including an annual online anonymous poll around the Microsoft work experience including workgroups, organization, and the company as a whole. The senior leadership team and individual managers use this feedback to further improve areas of strength and address opportunities for improvement. This feedback is also used to balance resources between maintaining support and care for existing customers and exposing personnel to new areas of product development.

Suppliers

The Company extends the expectation of high standards of business conduct to the suppliers who do business with Microsoft through requiring them to uphold human rights, labour, health and safety, environment, and business ethics practices in our Supplier Code of Conduct. Supplier engagement is sought through workshops and trainings, supplier advisory boards, a supplier summit and participation in industry coalitions. An anonymous voice of the supplier survey is also conducted.

Environment

The Directors have considered the importance of climate change and working towards Microsoft's strategy for a sustainable future which focuses on climate, ecosystems, water, and waste. On climate, this includes a commitment to becoming carbon negative by 2030, shifting to 100% renewable energy by 2025 and investing in new technologies and innovative sustainability solutions.

Key performance indicators

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

- Bookings of \$162.5m (2021 - \$178.2m), a decrease of 8.8% (2021 – decrease of 10.8%) driven by a decline in the market for fixed line voice products;
- Targeted reliability rate on deployed network services – 5.5 (2021 – 5.5), measured in nines; and
- Maintenance renewal rate of 98.5% (2021 – 99.2%).

**METASWITCH NETWORKS LTD
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 August 2022**

Financial highlights

Metaswitch produced a steady performance during the 2022 financial year, and continued to invest in R&D. Key financial metrics for the year were as follows:

- Revenue of \$254.5m compared to \$255.0m in the prior year, third party revenue of \$171.6m (2021: \$181.0m), driven by falls in both hardware and services revenue;
- The Company has made an operating profit of \$17.8m compared to \$24.0m profit in the prior year;
- Profit before tax of \$17.9m, a decrease of \$6.2m compared to \$24.1m in the prior year due to R&D investment and increased royalty charges.
- Revenue was derived from a diverse customer base with no single customer in 2022 or 2021 representing more than 10% of revenue. Customers from North America accounted for 43% (2021 – 43%) of revenue and repeat business from existing customers was 98% (2021 – 98%) of revenue;
- A substantial and targeted investment of \$72.7m (2021 - \$63.2m) was made in R&D, which will drive future revenue growth.

Conclusion and future developments

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

5G represents a generational change in cellular technology. As part of Microsoft's group of companies in the telco space, Metaswitch is uniquely placed to deliver the Azure platform to telecom operators to deploy their core network workloads, for developers to build and deploy 5G and edge applications, and to enable end users to consume services enabled by 5G and edge compute.

These new products in the unified communications space will be alongside a continued focus on supporting our existing customers and products, investing to ensure compatibility, features and security are kept up to date.

Approved by the Board and signed on behalf of the Board


.....
Benjamin Orndorff
Director

Date: 26 July 2023

METASWITCH NETWORKS LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 August 2022

The Directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 August 2022.

Disclosures relating to Environment, Engagement with Personnel, suppliers, customers and others and Section 172 Statement have been made in the strategic report (pages 1 - 6) and form part of Directors' report by cross-reference. Under section 414C (11) of the Act, the Directors may include in the strategic report such of the matters otherwise included in the Directors' report. Future developments have been disclosed in the vision and strategy sections of the strategic report. Disclosures in respect of streamlined energy and carbon reporting (SECR) have not been made given the business model of the Company, whereby employee costs, property costs and linked expenditure is incurred through cross-charges with other Group companies SECR disclosures are made within the entity where the cost is initially incurred.

Results and dividends

The income statement is set out on page 13 and shows the profit for the year of \$14,759,000 (2021 - \$17,437,000). A dividend of \$nil (2021 - \$579,007,000) was paid during the current year. No dividends have been proposed in the period following the year under review. See note 14 for further details.

Directors and directors' indemnity

The following Directors held office during the year and to the date of this report:

Keith Dolliver
Benjamin Orndorff

The Company has purchased, and maintained through the financial year, Directors' and Officers' Liability Insurance (qualifying third party indemnity) in respect of itself and its Directors.

Disabled persons

Under the terms of the Agreement to Provide Workers/Personnel dated 1 March 2021 Microsoft Limited provides personnel at cost to the Company to support the activities of Metaswitch. The Company's policy is to engage disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining personnel who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Personnel involvement

The Company places considerable value on the involvement of its personnel and has continued to keep them informed on matters affecting them as personnel and on the various factors affecting the performance of the Company. Information on matters of concern to personnel is communicated via emails, at regular Company or functional meetings and at individual status and appraisal meetings with the objective of seeking to achieve a common awareness on the part of all personnel of the financial and economic factors affecting the Company's performance. See Section 172 Statement on page 4 for further details.

Engagement with suppliers and customers

The Directors are aware of the need to foster strong business relationships with both suppliers and customers. Feedback from customers is critical in shaping our products. The Company also seeks to ensure high standards of business conduct are followed by our suppliers. See Section 172 Statement on page 4 for further details.

Political and charitable donations

During the year ended 31 August 2022, charitable donations of \$443,000 are included in the income statement (2021 - \$155,000). There were no political donations made in the current or prior year.

Branches

The Company has branches in Hong Kong and Singapore and subsidiaries in the United States and other territories (note 8).

METASWITCH NETWORKS LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 August 2022

Research and development and future developments

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

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Microsoft Corporation have provided a letter of support confirming that as the ultimate parent company it will continue to support Metaswitch Networks Limited for meeting its liabilities as and when they fall due for the foreseeable future being at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in note 1.4 to the financial statements.

Financial instruments

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The credit risk on cash is low because it is held with highly rated institutions. The Company's credit risk is primarily attributable to trade receivables, other receivables, and contract assets. Allowances are made for doubtful recoverability and foreseeable losses. The Company has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible it will always have sufficient liquidity to meet its liabilities when due. The Company uses monthly cash-flow forecasts to monitor cash requirements.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

**METASWITCH NETWORKS LTD
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 August 2022**

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor. Unless the members take action (as set out in section 488 of the Companies Act 2006) to prevent the deemed reappointment of the auditor, Deloitte LLP will be deemed to be reappointed for the financial year ending on 31 August 2023 at the end of the period for appointing auditors.

Statement of disclosure to auditor

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

- (a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) the Directors have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Approved by the Board and signed on behalf of the Board

.....
Benjamin Orndorff
Director

Date: 26 July 2023

METASWITCH NETWORKS LTD INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 August 2022

Independent auditor's report to the members of Metaswitch Networks Ltd

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Metaswitch Networks Ltd (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 August 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statements of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)".

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report and financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

METASWITCH NETWORKS LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

FOR THE YEAR ENDED 31 August 2022

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act 2006 and UK Corporation tax legislation.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas and our specific procedures performed to address it are described below;

- **Cut-off of revenue recognition:** We tested the design and implementation of controls in place to mitigate the risk of material misstatement; and performed substantive testing on a sample of sales to confirm the evidence relating to percentage completion applied for bundled contracts to determine the cut off for revenue, assessing if the revenue had been recognised in the appropriate period.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

**METASWITCH NETWORKS LTD
INDEPENDENT AUDITOR'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 August 2022**

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Helen Burridge

Helen Burridge (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

Date: 26 July 2023

METASWITCH NETWORKS LTD
INCOME STATEMENT
FOR THE YEAR ENDED 31 August 2022

		Year ended 31 August 2022	Year ended 31 August 2021
	Notes	\$'000	\$'000
Revenue	3	254,471	255,049
Cost of sales		(35,792)	(41,626)
Gross profit		218,679	213,423
Sales and marketing expenses		(5,615)	(42,171)
Research and development expenses		(72,669)	(63,232)
General and administrative expenses		(122,644)	(83,997)
Operating profit	4	17,751	24,023
Finance income	5	121	220
Finance expenses	6	-	(96)
Profit before tax		17,872	24,147
Tax charge	7	(3,113)	(6,710)
Profit for the year		14,759	17,437

All amounts are derived from continuing activities. The notes on pages 18 to 40 form part of these financial statements.

METASWITCH NETWORKS LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 August 2022

	Year ended 31 August 2022 \$'000	Year ended 31 August 2021 \$'000
Profit for the year	14,759	17,437
Items that will be reclassified to profit and loss:		
Foreign exchange translations	(17)	(42)
Total comprehensive income for the year	<u>14,742</u>	<u>17,395</u>

METASWITCH NETWORKS LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31 August 2022

	Notes	31 August 2022 \$'000	31 August 2021 \$'000
Non-current assets			
Investments	8	194	194
Deferred tax assets	9	828	626
		<u>1,022</u>	<u>820</u>
Current assets			
Inventories	10	901	1,854
Trade and other receivables	11	67,989	74,092
Contract costs	3	2,978	1,270
Contract assets	3	4,816	3,732
Current tax assets		8,920	18,767
Cash and cash equivalents		10,992	16,777
		<u>96,596</u>	<u>116,492</u>
Total assets		<u>97,618</u>	<u>117,312</u>
Current liabilities			
Trade and other payables	12	38,002	73,060
Contract liabilities and accruals	3	56,372	55,750
Provisions	13	200	200
		<u>94,574</u>	<u>129,010</u>
Total liabilities		<u>94,574</u>	<u>129,010</u>
Net assets/(liabilities)		<u>3,044</u>	<u>(11,698)</u>

METASWITCH NETWORKS LTD
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 August 2022

	Notes	31 August 2022 \$'000	31 August 2021 \$'000
Equity			
Retained earnings	14	(8,919)	(23,678)
Translation reserve	14	(194)	(177)
Capital contribution		12,157	12,157
		<u>3,044</u>	<u>(11,698)</u>

The notes on pages 18 to 40 form part of these financial statements.

Approved by the Board and authorized for issue on

26 July 2023

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Benjamin Orndorff
 Director

Company Registration No. 01578918

METASWITCH NETWORKS LTD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 August 2022

	Share capital \$'000	Share premium \$'000	Capital contribution \$'000	Capital redemption reserve \$'000	Translation reserve \$'000	Retained earnings \$'000	Total equity \$'000
At 1 September 2020	3	231,006	12,157	17	(135)	306,866	549,914
Profit for the year	-	-	-	-	-	17,437	17,437
Other comprehensive income for the year	-	-	-	-	(42)	-	(42)
Total comprehensive income for the year	-	-	-	-	(42)	17,437	17,395
Capital reduction ⁽¹⁾	(3)	(231,006)	-	(17)	-	231,026	-
Dividend paid ⁽²⁾	-	-	-	-	-	(579,007)	(579,007)
At 31 August 2021	-	-	12,157	-	(177)	(23,678)	(11,698)
	Share capital \$'000	Share premium \$'000	Capital contribution \$'000	Capital redemption reserve \$'000	Translation reserve \$'000	Retained earnings \$'000	Total equity \$'000
At 1 September 2021	-	-	12,157	-	(177)	(23,678)	(11,698)
Profit for the year	-	-	-	-	-	14,759	14,759
Other comprehensive income for the year	-	-	-	-	(17)	-	(17)
Total comprehensive income for the year	-	-	-	-	(17)	14,759	14,742
At 31 August 2022	-	-	12,157	-	(194)	(8,919)	3,044

(1) During the prior year the Board approved a reduction in the capital of the Company, see note 14 (b) for further details.

(2) A dividend of \$579,007,000 was paid during the prior year (equivalent to \$19.40 per share). The amount of the dividend distribution was determined based on a review at the time suggesting that the Company had sufficient distributable reserves. It was subsequently discovered that there was a shortfall in distributable reserves. See note 14 (c) for further details.

All amounts are derived from continuing activities. The notes on pages 18 to 40 form part of these financial statements.

METASWITCH NETWORKS LTD

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 August 2022

1. Accounting policies

1.1 General information

Metaswitch Networks Ltd ("the Company") is a private company, limited by shares, incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The principal activities of the Company are described in the Strategic Report. The Company's registered office address is The Broadgate Tower, Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS.

1.2 Basis of preparation

The financial statements are presented in US dollars because that is the currency of the primary economic environment in which the Company operates.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual and not about its group.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. The Company reports under FRS 101 'Reduced Disclosure Framework'. These financial statements are prepared under the historical cost convention.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, certain disclosure in respect of revenue from contracts with customers, impairment of assets, certain related party transactions, and certain disclosure requirements in respect of leases (specifically, the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases).

Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in note 19.

1.3 Adoption of new standards and interpretations

In the current year amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective in relation to Interest Rate Benchmark Reform IFRS 9 and IFRS 7 and Amendment to IFRS 16 in relation to Covid-19 Rent Concessions do not have any material impact on the disclosures or on the amounts reported in these financial statements.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

1. Accounting policies (continued)

1.4 Going concern

The financial statements have been prepared on a going concern basis. The Company's business activities, together with factors likely to affect its future development, performance and financial position and commentary on its financial results are outlined in the Strategic Report on pages 1 to 6 and the income statement and statement of financial position.

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

- trading forecasts (taking into account reasonably possible changes in trading performance) show that the Company expects to remain profitable for the next 12 months following approval of this annual report. See also the Operating Highlights section on page 1 of the Strategic Report which sets out the intra-company agreements in place;
- the Company's cash balance at 31 August 2022 was \$11.0m (2021 - \$16.8m);
- Microsoft Corporation have provided a letter of support confirming that as the ultimate parent company it will continue to support Metaswitch Networks Limited in meeting its liabilities as and when they fall due for the foreseeable future being at least 12 months from the date of approval of these financial statements. While considering the ability of Microsoft Corporation to provide this support, the directors have reviewed 2022 operating results and financial performance of Microsoft Corporation.

Taking the factors noted above into consideration the directors consider they have sufficient resources or access to resources to meet liabilities as they fall due for a period of at least 12 months from signing these financial statements and therefore the financial statements have been prepared on a going concern basis.

1.5 Foreign currency translation

Transactions in currencies other than the functional currency of the Company are recorded at a daily exchange rate.

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

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

Any gains or losses on exchange are treated as arising from the ordinary course of business and disclosed within general and administrative expenses.

1.6 Intangible assets

a) Separately acquired intangible assets

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

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

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

1. Accounting policies (continued)

1.6 Intangible assets (continued)

b) Research and development

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

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

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

1.7 Inventories

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

1.8 Revenue recognition

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

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

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

Identify the contract(s)

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

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

**METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022**

1. Accounting policies (continued)

1.8 Revenue recognition (continued)

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

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

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

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

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

Determine the transaction price

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer.

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

Allocation of the transaction price

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

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

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

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

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

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

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

1. Accounting policies (continued)

1.8 Revenue recognition (continued)

Acceptance clauses

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

Hardware and licences

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

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

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

Professional services

Professional services agreements are for the development of software and related services which are designed to meet the specific requirements of each customer. Revenue from the sale of such professional services is recognised on a percentage-of-completion basis over the period from signing of the arrangement to customer acceptance. The percentage-of-completion is measured by monitoring progress using records of actual time incurred to date in the project compared with the total estimated project requirement, which approximates to the extent of performance. Where services work includes key milestone payment dates that are closely aligned with how the customer obtains value from work completed over time, revenue is recognised on those invoiced milestones. This is because they represent acceptance clauses and hence the revenue is recognised on invoiced milestone dates as they represent fulfilment of the performance obligation.

Installation and commissioning services

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

Maintenance

In addition to the hardware and software revenue, contracts generally contain an agreement to provide post-delivery service support, in the form of support, maintenance and training which consists of the right to receive services and/or unspecified product upgrades or enhancements that are offered on a when-and-if-available basis. Fees for post-delivery service support are generally specified in the contract and equate to fair value. Revenue for post-delivery service support is recognised on a straight-line basis over the period for which support and maintenance is contractually agreed by the Company with the licensee. When the fee specified in the agreement for the maintenance to be provided does not equate to fair value or when no fee is separately specified, a portion of the total agreement fee is allocated to maintenance in an amount equal to its fair value, which is deferred and recognised as revenue as the services are rendered.

**METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022**

1. Accounting policies (continued)

1.8 Revenue recognition (continued)

Royalties

Royalty revenues are earned on sales by the Company's customers of products containing Metaswitch generated technology. Royalty revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenues are recognised when the Company receives notification from the customer of product sales.

Contract balances

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

Costs to obtain a contract

Costs to obtain a contract generally include sales commissions and incentives. Such expenses are deferred and recognised in the income statement in line with the associated revenue recognition.

Costs to fulfil a contract

Costs to fulfil a contract that are derived from external sources (cost of hardware and subcontractors) are recognised when the associated revenue is taken in the income statement. Where revenue is deferred, the related costs are also deferred and included in contract costs on the statement of financial position.

Intercompany revenue

Revenue includes commission earned under the Research & Development agreement entered into with another group entity. The Company undertakes research and development work under the terms of the agreement and is compensated with a fee calculated on a cost plus basis. Revenue is recognised in the period in which the costs are incurred.

1.9 Taxation

The tax expense represents the sum of the current tax and deferred tax.

The 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 liability for current tax is calculated using tax rates that have been enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

METASWITCH NETWORKS LTD

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 AUGUST 2022

1. Accounting policies (continued)

1.10 Research and development expenditure credit (RDEC)

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

The amount receivable in respect of the RDEC is included as a current tax asset on the statement of financial position.

1.11 Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

1. Accounting policies (continued)

1.11 Leases (continued)

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented within the property, plant and equipment line in the balance sheet.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the general and administrative expenses line item.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

1.12 Financial assets and financial liabilities

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

Financial assets

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

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

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

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

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

1. Accounting policies (continued)

1.12 Financial assets and financial liabilities (continued)

Impairment of financial assets

The Company always recognises lifetime expected credit losses (ECL) for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Derecognition of financial assets

The Company 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.

Financial liabilities

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

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

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

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

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

1.13 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

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

1.14 Investments in subsidiary undertakings

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

1.15 Cash and cash equivalents

Cash and cash equivalents comprise cash balances. The carrying amount of these assets is approximately equal to their fair value.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

2. Critical accounting judgements and key areas of estimation uncertainty

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

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

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

Revenue recognition (including costs to fulfil a contract)

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

b) Sources of uncertainty related to estimate and assumptions

The Company does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

3. Revenue

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

	2022	2021
	\$'000	\$'000
Sale of hardware	10,531	13,822
Sale of perpetual licenses	33,805	36,978
Sale of subscription licenses	18,066	17,848
Provision of services	28,453	32,727
Maintenance	78,935	77,554
Royalty income	1,807	2,067
Intercompany revenue	82,874	74,053
	<hr/>	<hr/>
	254,471	255,049
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Of the \$254.5m (2021 - \$255.0m) total revenue recognised \$35.7m (2021 - \$41.4m) was recognised at a point in time, with the remaining revenue recognised over time.

Intercompany revenue relates to commission earned under the Research & Development agreement entered into with another group entity. The Company undertakes research and development work under the terms of the agreement and is compensated with a fee calculated on a cost plus basis.

Analysis by geographical area

	2022	2021
	\$'000	\$'000
United States of America	109,577	110,399
Rest of the World	144,894	144,650
	<hr/>	<hr/>
	254,471	255,049
	<hr/>	<hr/>

Contract balances

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

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

3. Revenue (continued)

	2022			Contract cost accruals \$'000	2021			Contract cost accruals \$'000
	Contract assets \$'000	Contract costs \$'000	Contract liabilities \$'000		Contract assets \$'000	Contract costs \$'000	Contract liabilities \$'000	
As at 1 September	3,732	1,270	(51,892)	(3,858)	7,277	2,884	(49,242)	(5,725)
Revenue recognised that was included in the contract costs/liability at the start of the period	-	(1,188)	43,264	-	-	(2,869)	41,946	-
Increase due to amounts invoiced, excluding amounts recognised as revenue during the year	-	-	(45,582)	-	-	-	(44,566)	-
Transfers from contract assets recognised at the start of the period, and on acquisition, to receivables	(3,044)	-	-	-	(6,998)	-	-	-
Transfer from contract cost accruals recognised at the start of the period to payables	-	-	-	3,848	-	-	-	4,541
Increases as a result of changes in the measure of progress and contract costs to obtain and fulfil contracts, including new contracts obtained during the year	4,128	2,896	62	(2,214)	3,453	1,255	(30)	(2,674)
As at 31 August	4,816	2,978	(54,148)	(2,224)	3,732	1,270	(51,892)	(3,858)

Amounts held in trade receivables in respect of contracts were \$27.4m (2021 - \$25.9m). The directors of the Company always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL taking into account the historical default experience.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

4. Operating profit

	2022	2021
	\$'000	\$'000
Operating profit is stated after charging/(crediting):		
Net foreign exchange loss	1,462	879
Auditor's remuneration (audit of the financial statements)	239	253
Impairment of inventories	287	476
Research and development expenditure	72,669	63,232
RDEC - included in the line above	(4,823)	(2,350)
Loss on disposal of property, plant and equipment	-	583
Depreciation of property, plant and equipment	-	1,521
Amortisation of intangibles	-	206
	<hr/>	<hr/>

5. Finance income

	2022	2021
	\$'000	\$'000
Interest receivable from fellow undertaking	121	2
Promissory note interest	-	218
	<hr/>	<hr/>
	121	220
	<hr/>	<hr/>

6. Finance expenses

	2022	2021
	\$'000	\$'000
Bank loans and overdrafts	-	50
Interest in lease liabilities	-	46
	<hr/>	<hr/>
	-	96
	<hr/>	<hr/>

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

7. Taxation

	2022	2021
	\$'000	\$'000
a) Taxation recognised in the income statement		
Current tax expense		
UK corporation tax charge	3,474	5,879
Adjustments in respect of prior years	(159)	635
Foreign tax charge	-	4
	<hr/>	<hr/>
Total current tax charge for the year	3,315	6,518
	<hr/>	<hr/>
Deferred tax charge		
Current year	455	-
Change in tax rate	(199)	54
Adjustments in respect of prior years	(458)	138
	<hr/>	<hr/>
Total deferred tax (credit)/charge for the year (note 9)	(202)	192
	<hr/>	<hr/>
Total tax charge for the year	3,113	6,710
	<hr/>	<hr/>

UK Corporation tax is calculated at 19% (2021 – 19%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

7. Taxation (continued)

b) Reconciliation of total tax charge to accounting profit

	2022	2021
	\$'000	\$'000
Profit before tax	17,872	24,147
Tax charge on Company profit at standard UK corporation rate of 19% (2021 – 19%)	3,396	4,588
Tax effect of:		
Expenses not tax deductible	107	72
Different tax rates in branches operating in other jurisdictions	(10)	(13)
Change in tax rate	(199)	1,290
Adjustments in respect of prior years	(617)	773
Impact of changes to exchange rates	436	-
	<hr/>	<hr/>
Company income tax charge for the year	3,113	6,710
	<hr/>	<hr/>

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

8. Investments

	Shares in subsidiary undertakings \$'000
<i>Cost</i>	
At 1 September 2021 and 31 August 2022	8,171
<i>Impairment</i>	
At 1 September 2021 and 31 August 2022	7,977
	<hr/>
At 31 August 2022	7,977
	<hr/>
<i>Carrying amount</i>	
At 31 August 2022	194
	<hr/>
At 31 August 2021	194
	<hr/>

The Company has the below investments in wholly owned subsidiaries, which are 100% held directly by Metaswitch Networks Limited through ordinary shareholdings unless otherwise stated.

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

**METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022**

8. Investments (continued)

Name	Nature of business	Country of incorporation and registration	Registered office address
Metaswitch Networks S.A.R.L.	Sales and marketing support to the parent company	France	15 Rue Taitbout, 75009, Paris, France
Metaswitch Networks Pty Ltd	Sales and marketing support to the parent company	Australia	Level 10, Tower 4, World Trade Centre 611 Flinders Street Melbourne Victoria 300
Metaswitch (Thailand) Ltd	Sales and marketing support to the parent company	Thailand	90/40-41 Sathom Thani Building 1, 15 Floor, North Sathom Road, Silom Sub-district, Bangrak District, Bangkok Metropolis, Thailand
Metaswitch Networks Ltd Mexico ⁽¹⁾	Sales and marketing support to the parent company	Mexico	Edificio Terret Blvd. Miguel de Cervantes Saavedra 301, Torre Sur. Piso 14, Col. Granada, Mexico City 11520, Mexico
Open Cloud Spain SL	Software development and information technology services	Spain	c/o Juan Bravo No 3-A, 28006, Madrid, Spain
Open Cloud Inc	Dormant	USA	350 Bay Street, #224, San Francisco, CA 94113, USA
Open Cloud Japan Limited	Dormant	Japan	8-1 Minami-Aoyama, 7-Chrome, Minato-ku, Tokyo, Japan
Metaswitch Networks Indonesia	Software development and information technology services	Indonesia	Menara Kadin Indonesia, Level 30 Jalan H.R.Rasuna Said Kav 2-3, Block X-5 Kav. 2-3, 12950 Jakarta, Indonesia.
Metaswitch Networks Malaysia Sdn. Bhd	Administrative and support to the parent company	Malaysia	Unit 3201, Level 32, Tower B, The Vertical Corporate Towers, Avenue 10, Bangsa, No. 8 Jalan Kerinchi, Kuala Lumpur, 59200, Malaysia
Metaswitch Networks Taiwan Co. Ltd	Dormant	Taiwan	11F No. 963 Zhongzheng Road, New Taipei City 235, Taiwan ROC

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

9. Deferred tax

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

	Tax losses \$'000	Property, plant & equipment \$'000	Retirement benefits \$'000	Other temporary differences \$'000	Total \$'000
At 1 September 2020	261	270	190	97	818
Adjustments in respect of prior periods	234	(513)	-	141	(138)
(Charge)/credit to income statement	(495)	709	(45)	(223)	(54)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2021	-	466	145	15	626
Adjustments in respect of prior periods	-	113	-	345	458
Credit/(charge) to income statement	-	58	46	(360)	(256)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2022	-	637	191	-	828
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

9. Deferred tax (continued)

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

	2022 \$'000	2021 \$'000
Recognised (gross)		
Other timing differences	3,312	3,295
	<u>3,312</u>	<u>3,295</u>
Unrecognised (net)		
Tax losses	3,762	2,859
Other timing differences	1,590	1,208
	<u>5,352</u>	<u>4,067</u>
Total	<u><u>8,664</u></u>	<u><u>7,362</u></u>

No deferred tax asset has been recognised on the \$3.8m net losses due to the uncertainty of the amount and timing of taxable profits against which the tax losses would be utilised (as these are restricted). All losses, recognised and unrecognised, may be carried forward indefinitely.

10. Inventories

	2022 \$'000	2021 \$'000
Finished goods	901	1,854
	<u>901</u>	<u>1,854</u>

Included within cost of sales are \$3.9m (2021 - \$5.1m) of inventories recognised as an expense during the year.

11. Trade and other receivables

	2022 \$'000	2021 \$'000
Trade receivables	27,384	25,883
Other receivables	39	269
Prepayments	270	999
Amounts due from subsidiary undertakings	1,005	431
Amounts due from fellow subsidiary undertakings	39,291	46,510
	<u>67,989</u>	<u>74,092</u>

Amounts due from subsidiaries and fellow subsidiaries are interest free and repayable on demand.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

12. Trade and other payables

	2022 \$'000	2021 \$'000
Trade payables	3,423	1,126
Other payables	584	384
Accruals	1,272	1,830
Amounts due to subsidiary undertakings	337	39,417
Amounts due to fellow subsidiary undertakings	32,386	30,303
	<u>38,002</u>	<u>73,060</u>

Amounts due to subsidiaries and fellow subsidiaries are interest free and repayable on demand.

13. Provisions

	Warranty provision \$'000	Total \$'000
At 1 September 2021	200	200
Utilisations	(121)	(177)
Charge to the income statement	121	177
	<u>200</u>	<u>200</u>
At 31 August 2022	<u>200</u>	<u>200</u>

Warranty provision

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

14. Share capital and reserves

a) Share capital

	2022 \$	2021 \$
Allotted, called up and fully paid		
29,838,549 Ordinary Shares of 1/3000 p each (2021 – 29,838,549)	137	137
	<u>137</u>	<u>137</u>

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

	1 September 2021 Number	Capital Reduction Number	Re- Designation Number	31 August 2022 Number
Ordinary Shares of 1/3000 p each	29,838,549	-	-	29,838,549
	<u>29,838,549</u>	<u>-</u>	<u>-</u>	<u>29,838,549</u>

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

14. Share capital and reserves (continued)

	1 September 2020 Number	Issue of shares Number	Re- Designation Number	31 August 2021 Number
A Preferred Shares of 0.001p each	120,900,566	(120,900,566)	-	-
Ordinary Shares of 1/3000 p each	29,838,549	-	-	29,838,549
C1 Ordinary Shares of 1/3000 p each	3	(3)	-	-
C2 Ordinary Shares of 1/3000 p each	8,181,237	(8,181,237)	-	-
C3 Deferred Ordinary Shares of 1/3000 p each	47,031	(47,031)	-	-
B1 Preferred Shares of 0.001p each	12,953,632	(12,953,632)	-	-
B2 Preferred Shares of 0.001p each	38,822,075	(38,822,075)	-	-
C Preferred Shares of 0.001p each	27,524,325	(27,524,325)	-	-
B3 Deferred Shares of 0.001p each	38,822	(38,822)	-	-
Additional Plan Ordinary Shares of 1/3000 p each	-	-	-	-

b) Reserves

In the prior year the Board approved a reduction in the capital of the Company by way of cancelling the shares detailed in note 14(a) and the amount by which the capital of the Company was so reduced was credited to reserves. At that time the share premium and capital redemption reserve of the Company were also cancelled and credited to reserves.

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

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

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

c) Dividend

In the prior year the Company made a distribution of \$579,007,000 to Somerville Acquisition UK Limited. This distribution was further distributed to Microsoft Corporation, thus settling the promissory note receivable balance of the same amount held by the Company at that date.

The Company remains in a net deficit position as the dividend of \$579,007,000 made during the prior year was in excess of distributable reserves, defined as total income and expense in the current and prior years attributable to shareholders, less cumulative dividends to shareholders. The amount of the distribution was determined based on a review in December 2020 when the distribution was made which suggested the Company had sufficient distributable reserves. It was subsequently discovered that there was a shortfall. Following legal advice, the Company has reviewed various potential remediation alternatives and concluded that it will remediate the shortfall via future profitability from the Company's operations.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

15. Staff costs

During the prior year employees of the Company were transferred to employment contracts with Microsoft Limited, therefore no staff costs were incurred in the current year. Under the terms of the Agreement to Provide Workers/Personnel dated 1 March 2021 Microsoft Limited continues to provide these personnel at cost to the Company to support the activities of Metaswitch Networks Limited.

	2022	2021
	\$'000	\$'000
Wages and salaries	-	29,750
Social security costs	-	2,416
Pension costs	-	4,201
	<hr/>	<hr/>
	-	36,367
	<hr/>	<hr/>

Employee numbers

The average monthly number of full-time equivalent employees:

	2022	2021
	Number	Number
Production, support, and services	-	135
Sales & marketing	-	35
Research & development	-	413
Administration	-	89
	<hr/>	<hr/>
	-	672
	<hr/>	<hr/>

16. Compensation of key management personnel

The key management personnel of the Company comprise the Executive Directors, Corporate Vice President, and the Chief Financial Officer. The compensation of key management personnel is set out below in aggregate.

	2022	2021
	\$'000	\$'000
Wages and salaries	-	1,054
Pension costs	-	17
	<hr/>	<hr/>
	-	1,071
	<hr/>	<hr/>

In the years ended 31 August 2022 and 31 August 2021 no directors received remuneration in respect of qualifying services as directors of the Company. No shares were received or receivable by the directors in respect of qualifying services under any long term incentive scheme.

METASWITCH NETWORKS LTD
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2022

17. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 and therefore not disclosed transactions with its wholly owned subsidiaries and fellow undertakings. The Company has a number of inter-company agreements in place with Microsoft entities, see the Operating Highlights section on page 1 of the Strategic Report for further details.

18. Contingent liabilities

IP infringement claims are common in the industry in which the Company operates. Based on management's assessment of potential claims the possibility of cash outflows in relation to ongoing matters is considered to be remote, in addition IP was transferred to Microsoft in prior periods.

19. Ultimate controlling party

The immediate parent company is Somerville Acquisitions UK Limited, a company incorporated in England and Wales. The ultimate parent company, which is also the controlling party and the largest and smallest company preparing group accounts in which the results of the Company are consolidated, is Microsoft Corporation, a company incorporated in the state of Washington in the United States of America. Copies of Microsoft Corporation's annual report are available at www.microsoft.com or on written request from the Investor Relations Department, at the registered address: Microsoft Corporation, 1 Microsoft Way, Redmond, Washington, 98052-6399, USA.