CyanConnode Holdings plc
("CyanConnode" or the "Company")
Half yearly results for the six months ended 30 June 2018

CyanConnode (AIM: CYAN), a world leader in narrowband radio frequency (RF) mesh networks, announces its half yearly results for the six months ended 30 June 2018.

Financial Highlights

- Revenue of £1,637,008 (H1 2017: £573,143), which is 40% higher than 2017 full year revenues
    - India being the largest contributing region
- Significant increase in gross margin to 79% (H1 2017: 31%) as a result of increase in software revenues
- Operating loss of £3,315,931 (H1 2017: £4,785,258), significant improvement on loss of £11,153,094 for 2017 full year
- Basic and diluted loss per share of 3.19p (H1 2017: 5.4p)
- Cash and cash equivalents at 30 June 2018 £2,752,791 (H1 2017: £3,046,082; FY 2017: £5,393,922)

Operational Highlights

- Purchase order contract for India won
    - USD 3.2 million order from strategic partner, Larsen & Toubro ("L&T")
    - Largest order to date for new IPv6-based, Omnimesh
- Official launch of standards-based, cost-optimised Omnimesh smart metering solution
    - End of major development programme, which will result in substantial reduction in development costs
    - Ensures the Company's technology can support global standards for Advanced Metering Infrastructure ("AMI"), further expanding its global reach
- New order worth EUR 184,000, which is part of a larger anticipated order expected to be in excess of EUR 800,000, for a smart metering deployment for a European utility
- New order from L&T for a further 5,000 smart meters in India
    - Delivered in H1 2018
- Substantial reduction in operating costs across the business

Post Period Highlights

- Purchase order, worth USD 780,000 and part of a larger potential order expected to commence delivery in H2 2018
    - Supply of IPv6 solution based on perpetual software licenses and annual maintenance for an initial period of 10 years
    - Approximately 50% of the total order value will be recognised fully in the current financial year
- New order from L&T for a further 10,000 smart metering units in India to be delivered in Q3 2018
    - Total units orders by L&T to date, 41,735
- David Johns-Powell, a significant shareholder, appointed to the board as a non-executive director
- Group Finance Director, Heather Peacock, appointed to the board

John Cronin, CyanConnode Executive Chairman, commented:

*"*My focus is to deliver CyanConnode's order book and for the Company to become cashflow positive as soon as possible.

"I am encouraged by the progress made in India, a key contributor to the revenue growth in H1. CyanConnode's experience in India and the suitability of its technology has strengthened its market position. I am very confident that India presents CyanConnode with a vast opportunity.

"During the period CyanConnode officially launched Omnimesh, its IPv6 based technology that is designed to support global communication standards.

"With an increasing magnitude of deployments, CyanConnode is seeing increasing opportunities for large scale license-based contracts that offer high-margin business.*"*

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H1 2018 Business Update

Sales and Operational Highlights

During the period, CyanConnode improved its delivery processes which enabled it to achieve record first half revenue of £1,637,008. The key contributors to the revenue growth were achieved from existing customer contracts in India, the Nordics and the UK.

In June CyanConnode officially launched Omnimesh, its IPv6 based technology that is designed to support global communication standards including Advanced Metering Infrastructure (AMI) for the smart metering market. The launch of Omnimesh also signified the end of expenditure on a major software development programme, which has helped to significantly reduce the operating loss for the period.

India

The Minister of Power and New & Renewable Energy, R K Singh recently announced that all traditional meters will be replaced by smart prepaid meters in the next three years and has urged smart meter manufacturers to increase their production. He said, "In the next three years metering will go smart prepaid and gone will be the days of bills reaching your house. So need of the hour is to scale up manufacturing of smart prepaid meters and to bring down their prices."

With smart metering being a key focus of the Government, standards for metering, communication network and AMI systems have been developed by The Ministry of Power, through institutions such as National Smart Grid Mission and Bureau of Indian Standards ("BIS").

CyanConnode's new Omnimesh technology fulfils AMI requirements and leading meter manufacturers, such as Genus, Larsen & Toubro ("L&T") and HPL have integrated the Company's technology into their BIS compliant smart meters, enabling rapid deployment. Furthermore, CyanConnode's technology is already integrated into the largest number of smart meter deployments in India and its deployment at the Chamundeshwari Electricity Supply Corporation ("CESC") project in Mysore is being showcased by Government Ministers as a model site.

Consequently, the Utilities are now issuing large *'Requests for Proposals'* for smart metering solutions including CyanConnode's technology and the Company is currently working on a sales pipeline of qualified opportunities of over USD 100 million.

The recent USD 3.2 million order from L&T for Madhya Pradesh Paschim Kshetra Vidyut Company Ltd, the largest Government Utility project utilising CyanConnode's narrowband RF mesh network technology, is proof that the scale of deployments is gaining momentum.

Bangladesh, Iran, the Nordics and Ukraine

During the period, the contracts in Bangladesh and Iran were progressing through the different stages of the Site Acceptance Testing (SAT) process with its key partners. CyanConnode's technology is delivered in a phased approach and each stage of the SAT requires the Company's partner and/or customer to determine whether their requirements have been met.

CyanConnode also announced an EUR 184,000 follow-on order from an existing Swedish partner for a smart metering deployment. This latest order reinforces the leading position of the Company's standards-based solution.

CyanConnode also continues to work with its strategic partner NIK regarding a contract for the deployment of one million smart meters in the Ukraine.

United Kingdom

A close collaborative partnership between CyanConnode, Telefónica and Toshiba resulted in a solution for second generation smart meters (SMETS2). Telefónica, (appointed as the preferred SMIP communications service provider for two thirds of the UK), promoted CyanConnode's narrowband RF mesh network technology to extend the reach of its existing mobile (cellular) network, into locations where cellular signal was not available ('Not-Spots').

Embedding Cyanconnode's Technology into the Toshiba SMETS2 Telefónica Communications Hub has enabled smart meters to be located in 'Not-Spots'. Anthony Shaw, Telefónica UK Smart Metering Director said, "CyanConnode is one of the very few suppliers globally that has the experience and leading-edge technology to support Smart Meter deployment in areas where there is no cellular coverage."

In June 2018, Secretary of State for Business, Energy and Industrial Strategy (BEIS), Greg Clark, announced that 1,000 SMETS2 devices had been installed and that the figure was a "significant milestone because it represents the beginning of the roll-out of the next generation of meters".

CyanConnode's contract is with Toshiba for its SMETS2 Telefónica Communications Hub and consists of software license and support fees. The Toshiba contract was originally calculated to deliver £24m of revenue based on the assumption that 10% of SMETS2 meters would be located in 'Not-Spots'. However, Energy Suppliers are now finding that dwellings with thick walls, or in blocks of flats, or in areas with poor mobile signal, are contributing to one out of three meters being located in 'Not-Spots'. Consequently, if the percentage of meters located in 'Not Spots' is more than 10%, then CyanConnode's revenue expectations from the contract will increase on a pro-rata basis. CyanConnode expects the roll-out of SMETS2 meters to gain momentum in the third quarter of 2018.

Rest of the World

CyanConnode continues to receive substantial requests for its technology from the Rest of the World, and those requests present the Company with very realistic and significant opportunities.

Financial Review

For the six months ended 30 June 2018 revenue was £1,637,008 (H1 2017: £573,143), which is 40% higher than for the entire FY 2017. This revenue growth reflects an increase in revenue derived from high margin software sales during H1 2018, a portion of which will lead to recurring revenues to be recognised over future periods.

The operating loss for the period was £3,315,931 (H1 2017 £4,785,258) and net loss after tax was £3,060,515 (H1 2017: £4,434,259). The reduction in operating loss was largely the result of reduced costs due to the end of a significant software development programme, as well as due to increased gross margins as a direct result of software revenues recognised.

In the first six months of 2018 cash reduced by operations was £4,056,168, resulting in a net cash outflow from operating activities of £2,734,473 after £1,321,693 of income taxes received from HMRC for R&D tax credits. Cash received from customers during H1 2018 was £0.9 million (H1 2017: £1.1 million). Net cash as at 30 June 2018 was £2,752,791 (H1 2017: £3,046,082, FY2017: £5,393,922). The £500,000 investment expected to be made by Non-Executive Director David Johns-Powell, as most recently notified on 25 July 2018, has not yet been made and therefore is not reflected in the consolidated statement of financial position as at 30 June 2018.
As in previous years, the auditor's report issued on the Company's statutory financial statements for the year ended 31 December 2017 highlighted uncertainty around the Group's ability to continue as a going concern. Details relating to going concern, including the additional funding expected to be required in 2018, are included in note 2.

Board changes

In June 2018, Simon Smith, non-executive Director stepped down from the board due to length of tenure. Simon had served on the board firstly as a non-executive director from March 2010 until September 2013, when he was appointed as Chief Financial Officer. In September 2017, he returned to a non-executive director role. The board would like to thank Simon for his valued contribution during his time at the Company. Simon remains a shareholder and firm supporter of the Company.

The Company also announced on 25 July 2018, two additional members to the board. David Johns-Powell, a significant shareholder of the Company, was appointed as a non-executive director. He brings with him extensive entrepreneurial experience across a range of businesses and sectors which will provide complementary skills to the board.

Heather Peacock was also appointed as Group Finance Director. Having worked for the Company for 10 years, originally as Financial Controller and more recently as Company Secretary, she brings with her over 20 years' senior financial experience across a range of organisations around the world.

Post period End

In July, CyanConnode received two orders from existing partners, both for smart metering implementations.

The first order worth USD 780,000, from Swedish-based system integrator HM Power, is part of a larger potential order. The purchase order is for CyanConnode's IPv6-based solution for perpetual software licenses and annual maintenance for an initial period of 10 years. The software licenses, which represent approximately 50% of the total order value, have been delivered and the revenue will be fully recognised in the current financial year. A large proportion of the hardware revenue will be recognised in the next financial year.

The second order received from L&T is for CyanConnode's Optimal solution for 10,000 smart metering units in India. The Company will provide communications hardware, perpetual software licenses and an annual maintenance contract. The smart meters will be deployed over the next two months and initial hardware deliveries commenced in August.

CyanConnode also announced in July two additional members to the board, as detailed above.

Outlook

The board continues to focus on the delivery of CyanConnode's order book and to move the business into a cashflow positive position as soon as possible.

The Company expects to require additional funding in the coming months. Conscious of its current balance sheet constraints, the Company has sought to moderate its cost base in FY18 with additional steps being taken to reduce operating costs in the current second half and in FY19. The end of expenditure on a major software development programme together with other identified cost savings will significantly reduce costs in H2. CyanConnode is also taking professional advice regarding the capitalisation of expenditure relating to a major software development programme; such capitalisation may improve the reported H2 result.

The Company remains on track to deliver full year management expectations, including an expected high margin license sale opportunity expected late in FY18. There remain a number of significant opportunities for the remainder of this financial year, with the full year out turn as ever subject to the quantum, margins and timing of product and services revenues.

The demand for CyanConnode's technology continues to grow and it is receiving significant enquiries for its RF mesh networks. The Company has the advantages that its technology outperforms against large and well-known brands, it works 'out of the box' and is highly reliable.

About CyanConnode

CyanConnode is a world leader in narrowband radio frequency (RF) mesh networks that facilitate machine to machine (M2M) communication. CyanConnode's innovative technology uses the industrial, scientific, and medical radio band, (ISM), which is optimised to give exceptional performance and competitive total cost of ownership. Through global partnerships, CyanConnode provides customers with a solution for the rapid deployment of local or countrywide ISM RF mesh networks that provide reliable and secure M2M communication.

For more information, please visit www.cyanconnode.com.

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

Consolidated Income Statement

Six months ended 30 June 2018

	Notes	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017	Year ended 31 December 2017
		£	£	£
Continuing operations				
Revenue		1,637,008	573,143	1,171,215
Cost of sales		(341,707)	(393,210)	(674,297)
Gross profit		1,295,301	179,933	496,918
Other operating costs		(4,373,159)	(4,714,820)	(11,160,819)
Amortisation / depreciation		(238,073)	(250,371)	(489,193)
Total operating costs		(4,611,232)	(4,965,191)	(11,650,012)
Operating loss		(3,315,931)	(4,785,258)	(11,153,094)
Investment revenue		6,895	3,053	15,619
Finance costs		(1,479)	(2,054)	(6,467)
Loss before tax		(3,310,515)	(4,784,259)	(11,143,942)
Tax		250,000	350,000	1,402,222
Loss for the period		(3,060,515)	(4,434,259)	(9,741,720)
Loss per share (pence)				
Basic	3	(3.19)	(5.4)	(10.18)
Diluted	3	(3.19)	(5.4)	(10.18)

Consolidated Statement of Comprehensive Income

Six months ended 30 June 2018

	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017	Year ended 31 December 2017
	£	£	£
Loss for period	(3,060,515)	(4,434,259)	(9,741,720)
Exchange differences on translation of foreign operations	(329)	(70,256)	46,384
Total comprehensive income for the period	(3,060,844)	(4,504,515)	(9,695,336)

Consolidated Statement of Financial Position

At 30 June 2018

	Unaudited 30 June 2018	Unaudited 30 June 2017	31 December 2017
	£	£	£
Non-current assets			
Intangible assets	5,258,624	5,679,312	5,468,967
Goodwill	1,930,229	1,930,229	1,930,229
Investments	42,654	119,158	47,827
Property, plant and equipment	57,284	74,609	82,510
	7,288,791	7,803,308	7,529,533
Current Assets			
Inventories	1,138,496	369,670	1,128,443
Trade and other receivables	2,650,846	2,367,555	3,019,113
Cash and cash equivalents	2,752,791	3,046,082	5,393,922
	6,542,133	5,783,307	9,541,478
Total assets	13,830,924	13,586,615	17,071,011
Current liabilities			
Trade and other payables	(1,984,125)	(1,715,954)	(2,248,068)
Total current liabilities	(1,984,125)	(1,715,954)	(2,248,068)
Net current assets	4,558,008	4,067,353	7,293,410
Non current liabilities			
Deferred tax liability	(858,976)	(942,938)	(858,976)
Total non current liabilities	(858,976)	(942,938)	(858,976)
Total Liabilities	(2,843,101)	(2,658,892)	(3,107,044)
Net assets	10,987,823	10,927,723	13,963,967
Equity			
Share capital	2,571,481	1,788,584	2,558,663
Share premium account	65,636,599	56,085,561	65,564,717
Own shares held	(3,252,943)	(808,856)	(3,252,943)
Share option reserve	1,316,020	894,103	1,316,020
Translation reserve	(130,569)	(246,880)	(130,240)
Retained loss	(55,152,765)	(46,784,789)	(52,092,250)
Total equity being attributable to owners of the Group	10,987,823	10,927,723	13,963,967

Consolidated Statement of Changes in Equity

At 30 June 2018

	Share Capital £	Share Premium £	Own shares held £	Share Option Reserve £	Translation Reserve £	Retained Losses £	Total Equity £
Balance at 30 June 2017	**1,788,584**	**56,085,561**	**(808,856)**	**894,103**	**(246,880)**	**(46,784,789)**	**10,927,723**
Loss for the period	-	-	-	-	-	(5,307,461)	**(5,307,461)**
Other comprehensive income for the period	-	-	-	-	116,640	-	**116,640**
Total comprehensive income for the period	-	-	-	-	116,640	(5,307,461)	**(5,190,821)**
Issue of share capital	770,079	9,479,156	-	-	-	-	**10,249,235**
Employee Benefit Trust	-	-	(2,444,087)	-	-	-	**(2,444,087)**
Credit to equity for share options	-	-	-	421,917	-	-	**421,917**
Balance at 31 December 2017	**2,558,663**	**65,564,717**	**(3,252,943)**	**1,316,020**	**(130,240)**	**(52,092,250)**	**13,963,967**
Loss for the period	-	-	-	-	-	(3,060,515)	**(3,060,515)**
Other comprehensive income for the period	-	-	-	-	(329)	-	**(329)**
Total comprehensive income for the period	-	-	-	-	(329)	(3,060,515)	**(3,060,844)**
Issue of share capital	12,818	71,882	-	-	-	-	**84,700**
Balance at 30 June 2018	**2,571,481**	**65,636,599**	**(3,252,943)**	**1,316,020**	**(130,569)**	**(55,152,765)**	**10,987,823**

Consolidated Cash Flow Statement

Six months ended 30 June 2018

	Notes	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017	Year ended 31 December 2017
		£	£	£
Net cash outflow from operating activities	4	(2,734,473)	(4,196,168)	(9,697,343)
Investing activities				
Interest received		6,895	3,053	15,619
Purchases of property, plant and equipment		(1,947)	(37,222)	(73,018)
Net cash from / (used in) investing activities		4,948	(34,169)	(57,399)
Financing activities				
Interest paid		(1,479)	(2,054)	(6,467)
Proceeds on issue of shares		84,700	3,579,834	11,804,432
Share issue costs		-	(116,225)	(535,493)
Purchases of bank securities		5,173	(77,641)	(6,313)
Net cash from financing activities		88,394	3,383,914	11,256,159
Net (decrease) / increase in cash and cash equivalents		(2,641,131)	(846,423)	1,501,417
Cash and cash equivalents at beginning of period		5,393,922	3,892,505	3,892,505
Cash and cash equivalents at end of period		2,752,791	3,046,082	5,393,922

Notes to the Accounts
Six months ended 30 June 2018

1. Basis of Preparation

The interim financial information has been prepared in accordance with the IFRS accounting policies used in the statutory financial statements for the year ended 31 December 2017.

These interim financial statements do not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006. Results for the six month periods ended 30 June 2018 and 30 June 2017 have not been audited. The results for the year ended 31 December 2017 have been extracted from the statutory financial statements of CyanConnode Holdings plc.

Statutory financial statements for the year ended 31 December 2017 are available on the Group's website www.cyanconnode.com and have been filed with the Registrar of Companies. The Group's auditor issued a report on those financial statements that was unqualified and did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006; however the auditor's report emphasised the uncertainty around the Group's ability to continue as a going concern.

2. Going Concern

To assess the ability of the Group to continue as a going concern, the Directors have prepared a business plan and cash flow forecast for the period to 31 December 2019 which, together, represent the Directors' best estimate of the future development of the Group. The forecast contains certain assumptions, the most significant of which are the level and timing of sales, together with the ability to secure additional equity finance in 2018, which the Company will be discussing with shareholders. The Group has a well-established track record of raising additional finance as required, with a number of supportive key shareholders, and therefore the Directors believe that the Group will be able to meet their liabilities as they fall due for at least 12 months, however they have highlighted the risks that the Group continues to face below.

The Directors have recognised that Group trading includes emerging country markets. As highlighted in previous years these markets have an inherent level of uncertainty associated with them and this may result in the predicted level of sales not being achieved, and/or the timing of orders being delayed, as has been the case for the Group in the past. The Directors have taken reasonable steps to satisfy themselves about the robustness of sales forecasts but acknowledge that the timing of customer orders in the Group's target markets can take longer than expected. This may impact the timing of the Group's ability to generate positive cash flow and to raise new finance. As also stated in prior year reports, there is a risk that the level of sales achieved is lower than the forecast or may be delayed.

The Directors' cash flow forecast includes an assumption that further equity finance or alternative working capital will need to be raised in 2018. The Directors consider that the Group has a realistic opportunity to secure the additional funding that will be required.

There is a level of uncertainty related to the assumptions described above which may cast doubt on the Group and Company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern. In the event the Group and Company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, including stocks, to their recoverable amount and providing for any further liabilities that might arise.

Notwithstanding the uncertainties described above, on the basis of sensitivities applied to the cash flow forecast, of contracted sales orders which are currently being delivered to customers, and that further finance can be raised in the relevant timescale, the Directors have a reasonable expectation that the Company and Group can continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of this report.

3. Loss per Share

Basic and diluted loss per ordinary share has been calculated by dividing the loss after taxation for the periods as shown in the table below.

	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017	Year Ended 31 December 2017
Losses (£)	3,060,515	4,434,259	9,741,720
Weighted average number of shares	95,907,867	81,474,108	95,740,200

IAS33 "Earnings per share" requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out of the money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS equals basic EPS.

4. Reconciliation of Operating Loss to Operating Cash Flows

	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017	Year ended 31 December 2017
	£	£	£
Operating loss for the period	(3,315,931)	(4,785,258)	(11,153,094)
Adjustments for:			
Depreciation of property, plant and equipment	26,563	41,011	68,504
Amortisation of intangible assets	210,343	210,344	420,689
Impairment of stock	-	-	55,615
Foreign exchange	281	(70,483)	46,220
Share based payment expense	-	-	689,282
Operating cash flows before movements in working capital	(3,078,744)	(4,604,386)	(9,872,784)
Increase in inventories	(10,053)	(29,495)	(843,543)
(Increase) / decrease in receivables	(703,425)	676,881	347,917
(Decrease) / increase in payables	(263,944)	(489,168)	42,766
Cash reduced by operations	(4,056,168)	(4,446,168)	(10,325,644)
Income taxes received	1,321,693	250,000	628,301
Net cash outflow from operating activities	**(2,734,473)**	**(4,196,168)**	**(9,697,343)**

5. Interim Results

The Group's Interim Results report is available for download on the Group's website. The report will not be posted to shareholders.