

Registered number: 04441386

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**ABBREVIATED ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

WEDNESDAY



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**SOLARFLARE COMMUNICATIONS LIMITED**

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**COMPANY INFORMATION**

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<b>DIRECTORS</b>	C W A Cotton D E Roberts M J Abalos
<b>COMPANY SECRETARY</b>	D E Roberts
<b>REGISTERED NUMBER</b>	04441386
<b>REGISTERED OFFICE</b>	Block 7 Westbrook Centre, Milton Road, Cambridge Cambridgeshire CB4 1YG
<b>INDEPENDENT AUDITORS</b>	Haslers Chartered Accountants & Statutory Auditor Old Station Road Loughton Essex IG10 4PL

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**SOLARFLARE COMMUNICATIONS LIMITED**

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## **SOLARFLARE COMMUNICATIONS LIMITED**

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### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

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#### **BUSINESS REVIEW**

The company receives commissions from Level 5 Networks, Inc. equal to its operating costs plus a percentage.

The company undertakes research and development exclusively for the ultimate parent company, Solarflare Communications, Inc.

The company continues to be dependent upon the support of its ultimate parent company, Solarflare Communications, Inc. to be able to continue in operation for the foreseeable future.

Solarflare Communications, Inc. has committed to provide such financial support as is necessary for the company to meet its obligations on an ongoing basis, and at least for the next twelve months.

Accordingly the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

#### **Research and Development**

The company incurred research and development costs of £5,294,456 during the year (2014: £3,938,197) all of which has been expensed to the profit and loss account during the year.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risk and uncertainty for the company therefore relates to the possibility of a discontinuation of that relationship.

The company's operations as a Research and Development centre ensure that it has no exposure to price risk.

The company also has no exposure to equity securities price risk as it holds no listed or other equity investments.

The company is financed solely by the parent company and as such faces no major credit or liquidity risk.

The company has interest-bearing assets in the form of cash balances.

#### **FINANCIAL KEY PERFORMANCE INDICATORS**

The Key Performance Indicators for the business include these developmental milestones:

The Cambridge team successfully completed:

- continued development and verification of new software drivers, firmware, factory test programs and other releases;
- expansion of the business into areas outside of financial services, specifically content delivery, and in more general business use;
- new software-based products for monitoring and securing networks; sales of packet-capture systems
- continued to develop new major hardware;
- firmware development associated with Solarflare's next generation "Medford" controller silicon.

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**SOLARFLARE COMMUNICATIONS LIMITED**

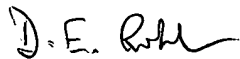
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**STRATEGIC REPORT (continued)**

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The results for the year to 31 December 2015 are set out in the profit and loss account.

This report was approved by the board on 6 April 2016 and signed on its behalf.



**D E Roberts**  
Director

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## **SOLARFLARE COMMUNICATIONS LIMITED**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015**

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The directors present their report and the financial statements for the year ended 31 December 2015.

#### **RESULTS AND DIVIDENDS**

The profit for the year, after taxation, amounted to £1,102,334 (2014 - £874,872).

The directors do not recommend payment of a dividend (2014: £nil).

#### **DIRECTORS**

The directors who served during the year were:

C W A Cotton  
D E Roberts  
M J Abalos

#### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the strategic report, the directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless 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;
- 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.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

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

#### **AUDITORS**

The auditors, Haslers, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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This report was approved by the board on 6 April 2016 and signed on its behalf.



**D E Roberts**  
Director

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOLARFLARE COMMUNICATIONS  
LIMITED  
UNDER SECTION 449 OF THE COMPANIES ACT 2006**

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We have examined the abbreviated accounts set out on pages 6 to 27, together with the financial statements of Solarflare Communications Limited for the year ended 31 December 2015 prepared under section 396 of the Companies Act 2006.

This report is made solely to the company in accordance with section 449 of the Companies Act 2006. Our work has been undertaken so that we might state to the company those matters we are required to state to it in a special auditors' 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, for our work, for this report, or for the opinions we have formed.

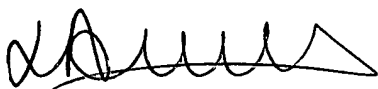
**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for preparing the abbreviated accounts in accordance with section 445 of the Companies Act 2006. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts to the Registrar of Companies and whether the abbreviated accounts have been properly prepared in accordance with the regulations made under that section and to report our opinion to you.

We conducted our work in accordance with Bulletin 2008/4 issued by the Auditing Practices Board. In accordance with that Bulletin we have carried out the procedures we consider necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts are properly prepared.

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with section 445(3) of the Companies Act 2006, and the abbreviated accounts on pages 7 to 27 have been properly prepared in accordance with the regulations made under that section.



Laura Ambrose (senior statutory auditor)

for and on behalf of  
**Haslers**

Chartered Accountants  
Statutory Auditor

Old Station Road  
Loughton  
Essex  
IG10 4PL

8 March 2016



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**SOLARFLARE COMMUNICATIONS LIMITED**

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**ABBREVIATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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	Note	2015 £	2014 £
Turnover		8,412,208	6,715,191
<b>Gross profit</b>		<b>8,412,208</b>	<b>6,715,191</b>
Administrative expenses		(7,674,298)	(6,129,700)
Other operating income		324,652	235,258
<b>Operating profit</b>		<b>1,062,562</b>	<b>820,749</b>
Interest receivable and similar income	6	83,123	77,383
Interest payable and expenses	7	(22,311)	(19,380)
<b>Profit before tax</b>		<b>1,123,374</b>	<b>878,752</b>
Tax on profit	8	(21,040)	(3,880)
<b>Profit for the year</b>		<b>1,102,334</b>	<b>874,872</b>
<b>Total comprehensive income for the year</b>		<b>1,102,334</b>	<b>874,872</b>

There were no recognised gains and losses for 2015 or 2014 other than those included in the abbreviated profit and loss  
The notes on pages 9 to 27 form part of these financial statements.

**SOLARFLARE COMMUNICATIONS LIMITED**  
04441386

**ABBREVIATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2015**

	Note	2015 £	2014 £
<b>Fixed assets</b>			
Tangible assets	9	848,374	818,736
		<u>848,374</u>	<u>818,736</u>
<b>Current assets</b>			
Debtors	10	4,703,606	4,147,868
Cash at bank and in hand	11	512,260	382,016
		<u>5,215,866</u>	<u>4,529,884</u>
Creditors: amounts falling due within one year	12	(547,865)	(922,053)
<b>Net current assets</b>		<u>4,668,001</u>	<u>3,607,831</u>
<b>Total assets less current liabilities</b>		<u>5,516,375</u>	<u>4,426,567</u>
Creditors: amounts falling due after more than one year	13	(149,260)	(215,898)
<b>Provisions for liabilities</b>			
Deferred tax		(50,151)	(45,736)
		<u>(50,151)</u>	<u>(45,736)</u>
<b>Net assets</b>		<u>5,316,964</u>	<u>4,164,933</u>
<b>Capital and reserves</b>			
Called up share capital	17	10,500	10,500
Share premium account	16	147,370	147,370
Profit and loss account	16	5,159,094	4,007,063
		<u>5,316,964</u>	<u>4,164,933</u>

The abbreviated accounts, which have been prepared in accordance with the special provisions of section 445(3) of the Companies Act 2006 relating to medium-sized companies, were approved and authorised for issue by the board and were signed on its behalf on 6 April 2016.



**D E Roberts**  
Director

The notes on pages 9 to 27 form part of these financial statements.

**SOLARFLARE COMMUNICATIONS LIMITED**

**ABBREVIATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015 £	2014 £
<b>Cash flows from operating activities</b>		
Profit for the financial year	1,102,334	874,872
<b>Adjustments for:</b>		
Depreciation of tangible assets	388,168	348,995
Interest paid	22,311	19,380
Interest received	(83,123)	(77,383)
Taxation	-	3,880
Increase in debtors	16,494	16,748
Decrease in amounts owed by groups	(560,637)	(1,023,100)
Increase in creditors	(353,201)	321,228
Corporation tax	(15,477)	-
<b>Net cash generated from operating activities</b>	<u>516,869</u>	<u>484,620</u>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets	(417,801)	(685,242)
Interest received	83,123	77,383
HP interest paid	(22,311)	(19,380)
<b>Net cash from investing activities</b>	<u>(356,989)</u>	<u>(627,239)</u>
<b>Cash flows from financing activities</b>		
Repayment of/new finance leases	(88,772)	246,053
<b>Net cash used in financing activities</b>	<u>(88,772)</u>	<u>246,053</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<u>71,108</u>	<u>103,434</u>
Cash and cash equivalents at beginning of year	<u>382,016</u>	<u>284,260</u>
<b>Cash and cash equivalents at the end of year</b>	<u><u>453,124</u></u>	<u><u>387,694</u></u>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	<u>512,260</u>	<u>382,016</u>
	<u><u>512,260</u></u>	<u><u>382,016</u></u>

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## SOLARFLARE COMMUNICATIONS LIMITED

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### NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 1. ACCOUNTING POLICIES

##### 1.1 Basis of preparation of financial statements

The full financial statements, from which these abbreviated financial statements have been extracted, have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 23.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note ).

The following principal accounting policies have been applied:

##### 1.2 TURNOVER

Turnover represents operating costs (net of interest received and excluding share based payments charges) recharged to the US parent company, plus a fixed percentage mark-up.

##### 1.3 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

The estimated useful lives range as follows:

Leasehold improvements	-	over the period of the lease
Other fixed assets	-	over a period of 12 months from the month of purchase
Leasehold equipment	-	25% straight line
Computer and laboratory equipment	-	25% straight line - 50% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

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## SOLARFLARE COMMUNICATIONS LIMITED

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### NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.4 Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

##### 1.5 Operating leases: Lessee

Rentals paid under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

##### 1.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

##### 1.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

##### 1.8 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

##### 1.9 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

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## SOLARFLARE COMMUNICATIONS LIMITED

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### NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.10 Research and development

Research and Development costs are expensed in the period in which they are incurred.

Research and Development claims are recognised in the period in which they are received.

##### 1.11 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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## **SOLARFLARE COMMUNICATIONS LIMITED**

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### **NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015**

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#### **1. ACCOUNTING POLICIES (continued)**

##### **1.12 Foreign currency translation**

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

The company's functional and presentational currency is GBP.

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

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

##### **1.13 Share based payments**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit and loss account over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the profit and loss account is charged with fair value of goods and services received.

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**1. ACCOUNTING POLICIES (continued)**

**1.14 Pensions**

**Defined contribution pension plan**

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payments obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

**1.15 Interest income**

Interest income is recognised in the profit and loss account using the effective interest method.

**2. OPERATING PROFIT**

The operating profit is stated after charging:

	<b>2015</b> £	<b>2014</b> £
Depreciation of tangible fixed assets	<b>388,170</b>	348,995
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	<b>12,000</b>	12,000
Exchange differences	<b>(158,484)</b>	(211,424)
Defined contribution pension cost	<b>219,366</b>	134,313

**3. AUDITORS' REMUNERATION**

	<b>2015</b> £	<b>2014</b> £
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	<b>12,000</b>	12,000
	<b>12,000</b>	12,000
<b>Fees payable to the company's auditor and its associates in respect of:</b>		
Other services relating to taxation	<b>3,125</b>	6,360
All other services	<b>1,895</b>	5,973
	<b>5,020</b>	12,333



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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**4. EMPLOYEES**

Staff costs, including directors' remuneration, were as follows:

	2015 £	2014 £
Wages and salaries	4,733,010	3,704,881
Social security costs	537,441	442,254
Cost of defined contribution scheme	219,366	134,313
	<u>5,489,817</u>	<u>4,281,448</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2015 No.	2014 No.
Research and Development	63	49
Administration	9	8
Sales	5	5
Customer Service	11	9
	<u>88</u>	<u>71</u>

**5. DIRECTORS' REMUNERATION**

	2015 £	2014 £
Directors' emoluments	124,008	129,755
Company contributions to defined contribution pension schemes	7,654	6,250
	<u>131,662</u>	<u>136,005</u>

During the year retirement benefits were accruing to 1 director (2014 - 1) in respect of defined contribution pension schemes.

The directors' interests in share options granted over shares in the ultimate parent company, Solarflare Communications Inc, are disclosed in the accounts of that company.

**6. INTEREST RECEIVABLE**

	2015 £	2014 £
Other interest receivable	<u>83,123</u>	<u>77,383</u>

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**7. INTEREST PAYABLE AND SIMILAR CHARGES**

	2015 £	2014 £
Finance leases and hire purchase contracts	<u>22,311</u>	<u>19,380</u>

**8. TAXATION**

	2015 £	2014 £
<b>Corporation tax</b>		
Current tax on profits for the year	<u>16,625</u>	<u>15,477</u>
<b>Total current tax</b>	<u>16,625</u>	<u>15,477</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	<u>4,415</u>	<u>(11,597)</u>
<b>Total deferred tax</b>	<u>4,415</u>	<u>(11,597)</u>
<b>Taxation on profit on ordinary activities</b>	<u>21,040</u>	<u>3,880</u>

**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is lower than (2014 - *lower than*) the standard rate of corporation tax in the UK of 20% (2014 - 20). The differences are explained below:

	2015 £	2014 £
Profit on ordinary activities before tax	<u>1,123,374</u>	<u>878,752</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2014 - 20%)	<u>224,675</u>	<u>175,750</u>
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	<u>6,131</u>	<u>7,555</u>
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	<u>(209,766)</u>	<u>(179,425)</u>
<b>Total tax charge for the year</b>	<u>21,040</u>	<u>3,880</u>

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**8. TAXATION (continued)**

**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

The company has losses carried forward of £413,274 (2014: £1,704,893) No deferred tax asset has been recognised in respect of these tax losses as it is not known when such an asset would become recoverable

**9. TANGIBLE FIXED ASSETS**

	Leasehold improve- ments £	Computer and laboratory equipment £	Other fixed assets £	Total £
<b>Cost or valuation</b>				
At 1 January 2015	356,425	2,314,735	699	2,671,859
Additions	-	415,824	1,977	417,801
Disposals	-	(3,565)	(699)	(4,264)
<b>At 31 December 2015</b>	<u>356,425</u>	<u>2,726,994</u>	<u>1,977</u>	<u>3,085,396</u>
<b>Depreciation</b>				
At 1 January 2015	44,277	1,808,147	699	1,853,123
Charge owned for the period	11,269	325,939	850	338,058
Charge financed for the period	22,266	27,846	-	50,112
Disposals	-	(3,572)	(699)	(4,271)
<b>At 31 December 2015</b>	<u>77,812</u>	<u>2,158,360</u>	<u>850</u>	<u>2,237,022</u>
<b>At 31 December 2015</b>	<u><u>278,613</u></u>	<u><u>568,634</u></u>	<u><u>1,127</u></u>	<u><u>848,374</u></u>
<i>At 31 December 2014</i>	<u><u>312,148</u></u>	<u><u>506,588</u></u>	<u><u>-</u></u>	<u><u>818,736</u></u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2015 £	2014 £
Leasehold improvements	264,553	296,422
Computer and laboratory equipment	2,392	30,238
	<u><u>266,945</u></u>	<u><u>326,660</u></u>

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**10. DEBTORS**

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
<b>Due after more than one year</b>		
<b>Due within one year</b>		
Amounts owed by group undertakings	<b>4,479,927</b>	<b>3,919,290</b>
Other debtors	<b>77,157</b>	<b>104,020</b>
Prepayments and accrued income	<b>146,522</b>	<b>124,558</b>
	<b>4,703,606</b>	<b>4,147,868</b>

Amounts owed by the parent undertaking are unsecured, and have no fixed repayment date. Interest charged to the parent undertaking was £83,088 (2014: £77,370).

**11. CASH AND CASH EQUIVALENTS**

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Cash at bank and in hand	<b>512,260</b>	<b>382,016</b>

**12. CREDITORS: Amounts falling due within one year**

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Trade creditors	<b>94,737</b>	<b>434,100</b>
Corporation tax	<b>16,625</b>	<b>15,477</b>
Taxation and social security	<b>153,222</b>	<b>135,901</b>
Obligations under finance lease and hire purchase contracts	<b>71,307</b>	<b>93,441</b>
Other creditors	<b>118,077</b>	<b>78,865</b>
Accruals and deferred income	<b>93,897</b>	<b>164,269</b>
	<b>547,865</b>	<b>922,053</b>

See note 15 for security against net obligations under finance leases and hire purchase contracts.

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**13. CREDITORS: Amounts falling due after more than one year**

	2015 £	2014 £
Net obligations under finance leases and hire purchase contracts	<u>149,260</u>	<u>215,898</u>

The net obligations under finance leases and hire purchase contracts are secured against the assets the liabilities relate to.

**14. HIRE PURCHASE & FINANCE LEASES**

Minimum lease payments under hire purchase fall due as follows:

	2015 £	2014 £
Not later than one year	71,307	93,441
Later than one and not later than five years	149,260	215,898
	<u>220,567</u>	<u>309,339</u>

**15. DEFERRED TAXATION**

	Deferred tax £
At 1 January 2015	(45,736)
Charged to the profit or loss	(4,415)
<b>At 31 December 2015</b>	<u><b>(50,151)</b></u>

The provision for deferred taxation is made up as follows:

	2015 £	2014 £
Accelerated capital allowances	(107,167)	(93,043)
Share based payments timing differences	57,016	47,307
	<u>(50,151)</u>	<u>(45,736)</u>

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**16. RESERVES**

**Share premium**

The share premium account represents the premium arising on the issue of shares net of issue costs.

**Profit & loss account**

The profit and loss account represents cumulative profits and losses net of dividends and other adjustments

**17. SHARE CAPITAL**

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
<b>Allotted, called up and fully paid</b>		
8,400,264 Ordinary shares of £0.00125 each	<b>10,500</b>	<b>10,500</b>

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## SOLARFLARE COMMUNICATIONS LIMITED

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### NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 18. SHARE BASED PAYMENT

The Enterprise Management Incentive Share Option Scheme (EMI) was introduced in 2003. Under the EMI the Board of Directors can grant options over shares in the ultimate US parent company to employees of the group. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. Options are granted in US Dollars and for reporting purposes have been converted to Sterling using the spot rate on the last calendar day of each year. The contractual life of an option is 10 years. All permanent employees are eligible for Awards under the EMI.

The company has made option grants in 2004, 2005, 2006, 2007, 2010, 2011, 2012, 2013, 2014 and 2015 with the majority of shares granted on each employee's hire date. The 2007 options granted were under consideration as to whether they qualified under the EMI scheme criteria. Having found that they do not, in January 2010 the directors cancelled those options and issued new options with accelerated vesting periods under the EMI scheme as the company met the qualifying criteria at that date.

Most original options granted under the EMI scheme will become exercisable 25% over the first year and pro rata monthly thereafter for the next 36 months; options over the initial grant typically vest monthly after a 48 month period. Vesting of an option is subject to continued employment, with exercises allowed for up to 90 days after termination of employment. The company merged with Solarflare Communications, Inc in April 2006. The share option grants detailed below, up to 31 December 2006, are the original grants. They were subsequently converted into options to purchase shares in Solarflare Communications, Inc, and therefore a merger fraction of 0.70699108 applied to the calculations. On 19 December 2008, Solarflare Communications, Inc had a 100:1 reverse stock split and each share of the company's issued and outstanding Common Stock was converted into 0.01 shares of Common Stock. Following the reverse stock split, the exercise price and number of shares of all outstanding share options were adjusted proportionately such that:

- a) the number of shares issuable upon exercise of each option was multiplied by 0.01; and
- b) the per share exercise price payable upon exercise of each option was divided by 0.01.

It was decided that the share options shall not be exercisable for fractional shares of the company's common stock so, in the event that the reverse stock split adjustments results in an optionee holding an option exercisable for a fraction of a share, such fractional share shall be disregarded for all purposes of the EMI scheme until the optionee shall hold an entire share. Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

	21/02/2005	27/04/2005	27/07/2005	09/09/2005	02/11/2005
Exercise price (£)	0.052	0.052	0.052	0.052	0.052
Number of employees	6	23	2	2	3
Shares under option	260,000	2,062,612	150,000	150,000	150,000
Vesting period (years)	4	4	4	4	4
Volatility	100.50%	103.50%	93.00%	102.30%	102.10%
Option life (years)	10	10	10	10	10
Expected life (years)	6.08	6.08	6.08	6.08	6.08
Risk free rate	3.98%	3.99%	4.13%	4.17%	4.56%
Dividend yield	-%	-%	-%	-%	-%
Fair value (£)	0.041	0.041	0.041	0.041	0.041

**SOLARFLARE COMMUNICATIONS LIMITED**

**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	13/01/2006	12/01/2010	23/09/2010	22/10/2011	27/07/2011
Exercise price (£)	0.046	0.025	0.051	0.038	0.037
Number of employees	3	28	5	7	43
Shares under option	417,500	5,129,786	205,000	420,000	4,664,947
Vesting period (years)	4	4	4	4	4
Volatility	101.40%	59.86%	74.79%	74.75%	74.48%
Option life (years)	10	10	10	10	10
Expected life (years)	6.08	5.59	6.02	6.01	5.97
Risk free rate	4.31%	2.06%	1.65%	1.31%	1.91%
Dividend yield	-%	-%	-%	-%	-%
Fair value (£)	0.036	0.030	0.017	0.013	0.013

	09/03/2011 £	03/02/2012 £	27/04/2012 £	04/10/2012 £	27/11/2012 £
Exercise price (£)	0.049	0.038	0.037	0.056	0.057
Number of employees	7	6	4	4	4
Shares under option	400,000	475,000	295,000	392,000	282,000
Vesting period (years)	4	4	4	4	4
Volatility	77.56%	50.30%	47.32%	46.54%	46.54%
Option life (years)	10	10	10		10
Expected life (years)	5.42	6.03	6.01	6.05	6.05
Risk free rate	2.26%	1.08%	1.09%	0.85%	0.87%
Dividend yield	-%	-%	-%	-%	-%
Fair value (£)	0.018	0.018	0.017	0.025	0.025

	25/07/2013 £	29/11/2013 £	11/02/2014 £	02/05/2014 £	16/07/2014 £
Exercise price (£)	0.065	0.062	0.061	0.059	0.058
Number of employees	6	9	5	1	1
Shares under option	460,000	541,000	285,000	40,000	40,000
Vesting period (years)	4	4	4	4	4
Volatility	46.90%	46.42%	45.19%	45.47%	41.67%
Option life (years)	10	10	10	10	10
Expected life (years)	6.01	5.96	5.56	5.66	5.71
Risk free rate	1.69%	1.70%	1.72%	1.84%	1.87%
Dividend yield	-%	-%	-%	-%	-%
Fair value (£)	0.030	0.028	0.025	0.026	0.024



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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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	21/10/2014 £	05/12/2014 £	26/02/2015 £	27/04/2015 £	25/08/2015 £
Exercise price (£)	0.062	0.064	0.065	0.066	0.063
Number of employees	8	67	6	9	4
Shares under option	490,000	2,437,500	505,000	352,000	173,000
Vesting period (years)	4	4	4	4	4
Volatility	43.03%	43.52%	51.41%	49.75%	48.24%
Option life (years)	10	10	10	10	10
Expected life (years)	5.82	6.25	5.94	6.25	6.20
Risk free rate	1.61%	1.91%	1.68%	1.58%	1.70%
Dividend yield	-%	-%	-%	-%	-%
Fair value (£)	0.062	0.029	0.018	0.010	0.011

	12/11/2015 £
Exercise price (£)	0.066
Number of employees	1
Shares under option	35,000
Vesting period (years)	4
Volatility	48.44%
Option life (years)	10
Expected life (years)	6.20
Risk free rate	1.94%
Dividend yield	-%
Fair value (£)	0.032

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As Solarflare Communications, Inc is not a publicly traded company, the expected volatility is based on the companies that are deemed comparable to Solarflare Communications, Inc. The expected life is the average expected period to exercise. The risk-free rate is based on the spot rates for the US Treasury Strips with maturities similar to the options. A reconciliation of options movements over the years to 31 December 2015 is shown below:

	No. of options	Price £
Outstanding 1 January 2005	1,523,000	0.027
Granted	2,772,612	0.052
Forfeited		
Exercised		
Outstanding 31 December 2005	4,295,612	0.043
Exercisable 31 December 2005	738,211	0.028

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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	<b>No. of options</b>	<b>Price £</b>
Outstanding 1 January 2006	<b>4,295,612</b>	<b>0.038</b>
Granted	<b>417,500</b>	<b>0.046</b>
Forfeited	<b>(76,146)</b>	<b>0.033</b>
Exercised	<b>(38,854)</b>	<b>0.025</b>
Outstanding 31 December 2006	<b>4,598,112</b>	<b>0.036</b>
Exercisable 31 December 2006	<b>2,484,646</b>	<b>0.031</b>

	<b>No. of options</b>	<b>Price £</b>
Outstanding 1 January 2007	<b>4,598,112</b>	<b>0.036</b>
Convert options into options to purchase shares in Solarflare Communications Inc (using merger fraction of 0.70699108)	<b>(1,347,288)</b>	<b>-</b>
	<b>3,250,824</b>	<b>0.036</b>
Granted	<b>359,853</b>	<b>0.105</b>
Forfeited	<b>-</b>	<b>-</b>
Exercised	<b>(830,793)</b>	<b>0.063</b>
Outstanding 31 December 2007	<b>2,779,884</b>	<b>0.035</b>
Outstanding 31 December 2007	<b>1,953,836</b>	<b>0.051</b>

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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	<b>No. of options</b>	<b>Price £</b>
Outstanding 1 January 2008	<b>2,779,884</b>	<b>0.035</b>
Granted	-	-
Forfeited	<b>(44,187)</b>	<b>0.094</b>
Exercised	<b>(30,636)</b>	<b>0.065</b>
Outstanding 31 December 2008	<b>2,705,061</b>	<b>0.018</b>
Exercisable 31 December 2008	<b>2,393,230</b>	<b>0.054</b>
After 100:1 reverse stock split:		
Outstanding 31 December 2008	<b>27,056</b>	<b>1.788</b>
Exercisable 31 December 2008	<b>23,895</b>	<b>5.364</b>

	<b>No. of options</b>	<b>Price £</b>
Outstanding 1 January 2009	<b>27,056</b>	<b>1.788</b>
Granted	-	-
Forfeited	<b>(2,786)</b>	<b>3.120</b>
Exercised		
Outstanding 31 December 2009	<b>24,270</b>	<b>1.357</b>
Exercisable 31 December 2009	<b>24,270</b>	<b>6.533</b>

	<b>No. of options</b>	<b>Price £</b>
Outstanding 1 January 2010	<b>24,270</b>	<b>1.357</b>
Granted	<b>5,334,786</b>	<b>0.024</b>
Forfeited	<b>(84,561)</b>	<b>0.045</b>
Cancelled	<b>(2,951)</b>	<b>0.105</b>
Exercised	-	-
Outstanding 31 December 2010	<b>5,271,544</b>	<b>0.020</b>
Exercisable 31 December 2010	<b>4,443,908</b>	<b>0.053</b>

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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	<b>No. of options</b>	<b>Price £</b>
Outstanding 1 January 2011	5,271,544	0.053
Granted	5,484,947	0.038
Forfeited	(283,256)	0.430
Exercised	(69,516)	0.040
Outstanding 31 December 2011	10,403,719	0.020
Exercisable 31 December 2011	5,226,609	0.046

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	<b>No. of options</b>	<b>Price £</b>
Outstanding 1 January 2012	10,403,719	0.046
Granted	1,444,000	0.046
Forfeited	(248,146)	0.085
Exercised	(99,660)	0.027
Outstanding 31 December 2012	11,499,913	0.020
Exercisable 31 December 2012	6,890,332	0.044

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	<b>No. of options</b>	<b>Price £</b>
Outstanding 1 January 2013	11,499,913	0.020
Granted	1,001,000	0.029
Forfeited	(464,271)	0.051
Exercised	(38,626)	0.029
Outstanding 31 December 2013	11,998,016	0.022
Exercisable 31 December 2013	8,647,442	0.044

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**NOTES TO THE ABBREVIATED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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	No. of options	Price £
Outstanding 1 January 2014	11,998,016	0.044
Granted	3,292,500	0.061
Forfeited	(603,199)	0.056
Exercised	(66,546)	0.031
Cancelled	(282,709)	0.167
Outstanding 31 December 2014	14,338,062	0.045
Exercisable 31 December 2014	9,710,756	0.040

	No. of options	Price £
Outstanding 1 January 2015	14,338,062	0.045
Granted	1,065,500	0.065
Forfeited	(332,730)	0.056
Cancelled	(7,558)	8.506
Exercised	-	-
Outstanding 31 December 2015	15,063,274	0.046
Exercisable 31 December 2015	11,429,482	0.039

The weighted average fair value of the options exercised in the year was £0.024 (2014:£0.022)

The weighted average exercise price and weighted average expected and contractual lives for 2013, 2014 and 2015 were:

	2015 £	2014 £	2013 £
		0.065	0.061
Number of shares		1,065,500	3,292,500
Weighted average contractual life (years)		10.00	10.00
Weighted average expected life (years)		5.93	6.72

The weighted average exercise price of the shares exercised in 2015 was £0.065 (2014: £0.061).

The total charge for the year relating to employee share based payment plans was £49,697 (2014: £44,614), all of which related to equity-settled share based payments transactions.

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## SOLARFLARE COMMUNICATIONS LIMITED

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### NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 19. CONTINGENT ASSET

The company is potentially entitled to a tax credit on its research and development expenditure in regards to the year ended 31 December 2015. No provision has been made in these financial statements of this potential tax credit as the claim is yet to be submitted and the exact amount due back is currently estimated at £484,068 (2014: £292,652) but is uncertain at this time. Any tax credit received will therefore be recorded within the year ended 31 December 2016 financial statements on a received basis.

#### 20. PENSION COMMITMENTS

The company operates a defined contribution pension scheme and contributions are charged to the profit and loss account as incurred. Contributions of £219,366 were made during the year to 31 December 2015 (2014: £134,313). There were contributions of £54,064 outstanding at the year end (2014: £nil). The company provides no other post retirement benefits to its employees.

#### 21. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2015 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2015 £	2014 £
Not later than 1 year	297,017	297,017
Later than 1 year and not later than 5 years	1,188,068	1,188,068
Later than 5 years	891,050	1,188,068
<b>Total</b>	<b>2,376,135</b>	<b>2,673,153</b>

#### 22. CONTROLLING PARTY

The directors regard Solarflare Communications, Inc., a company incorporated in the United States of America, to be the ultimate parent company. Solarflare Communications, Inc. has a 100% interest in the issued share capital of Level 5 Networks, Inc, a company incorporated in the United States of America. Level 5 Networks, Inc holds a 100% interest in Solarflare Communications Limited.

The ultimate controlling parties of Solarflare Communications, Inc. is Oak Investments Partners L.P. (being Oak X Affiliates Fund, LP, Oak Investment Partners X, L.P. and Oak Investment Partners XI, L.P.), limited partnerships formed in the United States of America. As far as the directors are aware, there is no one ultimate controlling party of Oak Investments Partners L.P.

#### 23. FIRST TIME ADOPTION OF FRS 102

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.

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**SOLARFLARE COMMUNICATIONS LIMITED**

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**SCHEDULE TO THE DETAILED ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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