

Company Registration No. 04441386 (England and Wales)

**SOLARFLARE COMMUNICATIONS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**



# **SOLARFLARE COMMUNICATIONS LIMITED**

## **COMPANY INFORMATION**

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<b>Directors</b>	M J Abalos C W A Cotton D E Roberts
<b>Secretary</b>	D E Roberts
<b>Company number</b>	04441386
<b>Registered office</b>	Block 7 Westbrook Centre Milton Road Cambridge Cambridgeshire CB4 1YG
<b>Auditor</b>	Ensors Accountants LLP Platinum Building St John's Innovation Park Cowley Road Cambridge CB4 0DS

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# **SOLARFLARE COMMUNICATIONS LIMITED**

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# SOLARFLARE COMMUNICATIONS LIMITED

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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The directors present the strategic report for the year ended 31 December 2017.

### BUSINESS REVIEW

The company receives commissions from Solarflare Communications, 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, at least for the next 12 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 £5,104,636 during the year (2016: £4,276,990) 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.

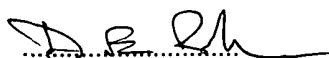
### FINANCIAL KEY PERFORMANCE INDICATORS

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

The Cambridge team successfully completed:

- Continued development and verification of new software drivers, firmware, factory test programs and other releases;
- New software-based products for monitoring and securing networks; sales of packet-capture systems;
- The specification, development, testing and manufacturing of next generation adapters based on its XtremeScale X2 controller silicon and began development of SmartNICs for next generation data centres;
- Ongoing support to all Solarflare products.

On behalf of the board



D E Roberts

Director

4 May 2018

SOLARFLARE COMMUNICATIONS LIMITED

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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The directors present their annual report and financial statements for the year ended 31 December 2017.

**Principal activities**

The principal activity of the company continued to be that of research and development of Ethernet based network technology and support for customers.

**Directors**

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

M J Abalos  
C W A Cotton  
D E Roberts

**Results and dividends**

The results for the year are set out on page 6.

An ordinary dividend of £6,100,000 was paid during the year.

**Auditor**

In accordance with the company's articles, a resolution proposing that Ensors Accountants LLP be reappointed as auditor of the company will be put at a General Meeting.

**Statement of disclosure to auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



D E Roberts

Director

Date: 4 May 2018

**DIRECTORS' RESPONSIBILITIES STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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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). 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 judgements 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;
- 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.

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF SOLARFLARE COMMUNICATIONS LIMITED

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#### Opinion

We have audited the financial statements of Solarflare Communications Limited (the 'company') for the year ended 31 December 2017 which comprise the Profit And Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

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.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**TO THE MEMBERS OF SOLARFLARE COMMUNICATIONS LIMITED**

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**Opinions on other matters prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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 material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

**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.

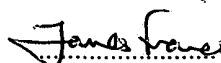
In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company 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 Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**James Francis (Senior Statutory Auditor)**  
for and on behalf of Ensors Accountants LLP



**Chartered Accountants**  
**Statutory Auditor**

Date: 4 May 2018

Platinum Building  
St John's Innovation Park  
Cowley Road  
Cambridge  
CB4 0DS



SOLARFLARE COMMUNICATIONS LIMITED

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £	2016 £
Turnover	3	9,826,321	8,074,951
Administrative expenses		(10,041,599)	(7,357,813)
Other operating income		561,510	1,012,627
<b>Operating profit</b>	<b>4</b>	<b>346,232</b>	<b>1,729,765</b>
Interest receivable and similar income	7	50,778	90,807
Interest payable and similar expenses	8	(21,005)	(21,080)
<b>Profit before taxation</b>		<b>376,005</b>	<b>1,799,492</b>
Tax on profit	9	(79,981)	(218,703)
<b>Profit for the financial year</b>		<b>296,024</b>	<b>1,580,789</b>

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

SOLARFLARE COMMUNICATIONS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Profit for the year</b>	296,024	1,580,789
<b>Other comprehensive income</b>	-	-
<b>Total comprehensive income for the year</b>	<u>296,024</u>	<u>1,580,789</u>

SOLARFLARE COMMUNICATIONS LIMITED

**BALANCE SHEET**

**AS AT 31 DECEMBER 2017**

	Notes	2017 £	£	2016 £	£
<b>Fixed assets</b>					
Tangible assets	11		901,208		756,482
<b>Current assets</b>					
Debtors	13	1,174,812		6,725,321	
Cash at bank and in hand		38,276		337,564	
		<u>1,213,088</u>		<u>7,062,885</u>	
<b>Creditors: amounts falling due within one year</b>	14	<u>(604,481)</u>		<u>(713,022)</u>	
<b>Net current assets</b>			608,607		6,349,863
<b>Total assets less current liabilities</b>			1,509,815		7,106,345
<b>Creditors: amounts falling due after more than one year</b>	15		(233,567)		(85,733)
<b>Provisions for liabilities</b>	17		(113,196)		(84,317)
<b>Net assets</b>			<u>1,163,052</u>		<u>6,936,295</u>
<b>Capital and reserves</b>					
Called up share capital	21		10,500		10,500
Share premium account			147,370		147,370
Profit and loss reserves			1,005,182		6,778,425
<b>Total equity</b>			<u>1,163,052</u>		<u>6,936,295</u>

The financial statements were approved by the board of directors and authorised for issue on 4 May 2018 and are signed on its behalf by:



D E Roberts  
Director

Company Registration No. 04441386

**SOLARFLARE COMMUNICATIONS LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	Share capital £	Share premium account £	Profit and loss reserves £	Total £
<b>Balance at 1 January 2016</b>		10,500	147,370	5,159,094	5,316,964
<b>Year ended 31 December 2016:</b>					
Profit and total comprehensive income for the year		-	-	1,580,789	1,580,789
Other movements		-	-	38,542	38,542
<b>Balance at 31 December 2016</b>		10,500	147,370	6,778,425	6,936,295
<b>Year ended 31 December 2017:</b>					
Profit and total comprehensive income for the year		-	-	296,024	296,024
Dividends	10	-	-	(6,100,000)	(6,100,000)
Other movements		-	-	30,733	30,733
<b>Balance at 31 December 2017</b>		10,500	147,370	1,005,182	1,163,052

SOLARFLARE COMMUNICATIONS LIMITED

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £	£	2016 £	£
<b>Cash flows from operating activities</b>					
Cash generated from operations	25	6,535,486		630,447	
Interest paid		(21,005)		(21,080)	
Corporation taxes paid		(281,135)		(577,537)	
<b>Net cash inflow from operating activities</b>		<b>6,233,346</b>		<b>31,830</b>	
<b>Investing activities</b>					
Purchase of tangible fixed assets		(610,931)		(264,569)	
Proceeds on disposal of tangible fixed assets		5,964		-	
Interest received		50,778		90,807	
<b>Net cash used in investing activities</b>		<b>(554,189)</b>		<b>(173,762)</b>	
<b>Financing activities</b>					
Contributions by owners		30,733		38,542	
Payment of finance leases obligations		90,822		(71,306)	
Dividends paid		(6,100,000)		-	
<b>Net cash used in financing activities</b>		<b>(5,978,445)</b>		<b>(32,764)</b>	
<b>Net decrease in cash and cash equivalents</b>		<b>(299,288)</b>		<b>(174,696)</b>	
Cash and cash equivalents at beginning of year		337,564		512,260	
<b>Cash and cash equivalents at end of year</b>		<b>38,276</b>		<b>337,564</b>	

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1 Accounting policies**

**Company information**

Solarflare Communications Limited is a private company limited by shares incorporated in England and Wales. The registered office is Block 7 Westbrook Centre, Milton Road, Cambridge, Cambridgeshire, CB4 1YG.

**1.1 Accounting convention**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling. The functional currency of the company is US\$. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

**1.2 Going concern**

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

At the year end, Solarflare Communications, Inc. has given a letter of support to the company committing to provide financial support to the company to the fullest extent possible for a period of at least twelve months from the date of approval of the financial statements of the company.

**1.3 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.

**1.4 Research and development expenditure**

Research expenditure is written off against profits in the year in which it is incurred.

**1.5 Tangible fixed assets**

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	over the period of the lease
Fixtures and fittings	33.33% straight line
Computers	25% - 50% straight line
Other fixed assets	over a period of 12 months from the month of purchase

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1 Accounting policies**

**(Continued)**

**1.6 Impairment of fixed assets**

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

**1.7 Cash and cash equivalents**

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

**1.8 Financial instruments**

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Basic financial assets**

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1 Accounting policies**

**(Continued)**

***Other financial assets***

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

***Impairment of financial assets***

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

***Classification of financial liabilities***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

***Basic financial liabilities***

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1 Accounting policies**

**(Continued)**

***Other financial liabilities***

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

***Derecognition of financial liabilities***

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

**1.9 Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

**1.10 Taxation**

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

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account 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 company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

***Deferred tax***

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end 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 profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1 Accounting policies**

**(Continued)**

**1.11 Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

**1.12 Retirement benefits**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

The company operates a salary sacrifice scheme, The pension costs disclosed relate solely to the company contributions.

**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 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 the 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.

**1.14 Leases**

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

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**1 Accounting policies****(Continued)****1.15 Foreign exchange**

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

**2 Judgements and key sources of estimation uncertainty**

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

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

**3 Turnover and other revenue**

An analysis of the company's turnover is as follows:

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Turnover analysed by class of business</b>		
Intercompany sales	9,826,321	8,074,951
	<u>          </u>	<u>          </u>

The whole of turnover is attributable to recharges of operating costs to the parent company.

**4 Operating profit**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Operating profit for the year is stated after charging/(crediting):		
Exchange losses/(gains)	112,029	(927,656)
Fees payable to the company's auditor for the audit of the company's financial statements	15,000	10,350
Depreciation of owned tangible fixed assets	431,635	322,200
Depreciation of tangible fixed assets held under finance leases	28,606	34,261
Operating lease charges	300,631	287,236
	<u>          </u>	<u>          </u>

# SOLARFLARE COMMUNICATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

### 5 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2017 Number	2016 Number
Research and Development	69	62
Administration	9	9
Sales	6	7
Customer service	12	11
	<u>96</u>	<u>89</u>

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and salaries	5,851,140	5,154,883
Social security costs	662,120	570,550
Pension costs	293,492	262,156
	<u>6,806,752</u>	<u>5,987,589</u>

### 6 Directors' remuneration

	2017 £	2016 £
Remuneration for qualifying services	146,675	131,975
Company pension contributions to defined contribution schemes	8,902	8,541
	<u>155,577</u>	<u>140,516</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2016 - 1).

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**7 Interest receivable and similar income**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Interest income</b>		
Interest on bank deposits	-	13
Interest receivable from group companies	41,892	90,794
Other interest income	8,886	-
<b>Total income</b>	<b>50,778</b>	<b>90,807</b>

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	-	13
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**8 Interest payable and similar expenses**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest on finance leases and hire purchase contracts	21,005	21,080

**9 Taxation**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Current tax</b>		
UK corporation tax on profits for the current period	51,102	184,537
<b>Deferred tax</b>		
Origination and reversal of timing differences	28,879	34,166
<b>Total tax charge</b>	<b>79,981</b>	<b>218,703</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**9 Taxation****(Continued)**

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2017 £	2016 £
Profit before taxation	376,005	1,799,492
Expected tax charge based on the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	72,381	359,898
Tax effect of expenses that are not deductible in determining taxable profit	11,430	5,937
Research and development tax credit	-	(147,132)
Effect of change in tax rate on deferred taxation	(3,830)	-
Taxation charge for the year	79,981	218,703

**10 Dividends**

	2017 £	2016 £
Final paid	6,100,000	-

**11 Tangible fixed assets**

	Leasehold improvements £	Computers £	Other fixed assets £	Total £
<b>Cost</b>				
At 1 January 2017	335,333	2,898,719	12,673	3,246,725
Additions	-	610,931	-	610,931
Disposals	-	(104,762)	(833)	(105,595)
At 31 December 2017	335,333	3,404,888	11,840	3,752,061
<b>Depreciation and impairment</b>				
At 1 January 2017	90,253	2,388,796	11,194	2,490,243
Depreciation charged in the year	33,457	425,305	1,479	460,241
Eliminated in respect of disposals	-	(98,798)	(833)	(99,631)
At 31 December 2017	123,710	2,715,303	11,840	2,850,853
<b>Carrying amount</b>				
At 31 December 2017	211,623	689,585	-	901,208
At 31 December 2016	245,080	509,923	207	756,482

SOLARFLARE COMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**11 Tangible fixed assets** **(Continued)**

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases or hire purchase contracts.

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Leasehold improvements	180,464	209,070
	<u>180,464</u>	<u>209,070</u>
Depreciation charge for the year in respect of leased assets	28,606	34,261
	<u>28,606</u>	<u>34,261</u>

**12 Financial instruments**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Carrying amount of financial assets</b>		
Debt instruments measured at amortised cost	65,119	6,129,816
	<u>65,119</u>	<u>6,129,816</u>
<b>Carrying amount of financial liabilities</b>		
Measured at amortised cost	642,219	604,611
	<u>642,219</u>	<u>604,611</u>

**13 Debtors**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
<b>Amounts falling due within one year:</b>		
Corporation tax recoverable	606,408	376,375
Amounts owed by group undertakings	65,119	6,120,185
Other debtors	81,247	100,700
Prepayments and accrued income	422,038	128,061
	<u>1,174,812</u>	<u>6,725,321</u>

Amounts owed by the parent undertaking are unsecured and have no fixed repayment date. Interest charged to the parent undertaking was £41,892 (2016: £90,794).

SOLARFLARE COMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**14 Creditors: amounts falling due within one year**

	Notes	2017 £	2016 £
Obligations under finance leases	16	93,053	63,528
Trade creditors		129,543	233,968
Other taxation and social security		195,829	194,144
Other creditors		20,785	51,283
Accruals and deferred income		165,271	170,099
		<u>604,481</u>	<u>713,022</u>

The obligations under finance leases are secured on the assets in question.

**15 Creditors: amounts falling due after more than one year**

	Notes	2017 £	2016 £
Obligations under finance leases	16	147,030	85,733
Other creditors		86,537	-
		<u>233,567</u>	<u>85,733</u>

Finance lease obligations are secured on the assets in question.



SOLARFLARE COMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**16 Finance lease obligations**

	2017	2016
	£	£
Future minimum lease payments due under finance leases:		
Within one year	93,053	63,528
In two to five years	147,030	85,733
	<u>240,083</u>	<u>149,261</u>

**17 Provisions for liabilities**

	Notes	2017	2016
		£	£
Deferred tax liabilities	18	113,196	84,317
		<u>113,196</u>	<u>84,317</u>

**18 Deferred taxation**

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

	Liabilities 2017	Liabilities 2016
	£	£
<b>Balances:</b>		
Accelerated capital allowances	113,196	84,317
	<u>113,196</u>	<u>84,317</u>
<b>Movements in the year:</b>		2017
		£
Liability at 1 January 2017		84,317
Charge to profit or loss		28,879
		<u>113,196</u>
Liability at 31 December 2017		<u>113,196</u>

The deferred tax liability set out above is expected to reverse within 12 months and relates to accelerated capital allowances that are expected to mature within the same period.

SOLARFLARE COMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**19 Retirement benefit schemes**

	2017	2016
Defined contribution schemes	£	£
Charge to profit or loss in respect of defined contribution schemes	293,492	262,156

The company operates a defined contribution pension scheme and contributions are charged to the profit and loss account as incurred. Contributions of £293,492 were made during the year to 31 December 2017 (2016: £262,156). There were contributions of £nil outstanding at the year end (2016: £nil). The company provides no other post retirement benefits to its employees.

**20 Share-based payment transactions**

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, 2015, 2016 and 2017 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.

SOLARFLARE COMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**20 Share-based payment transactions**

(Continued)

	Number of share options		Weighted average exercise price	
	2017 Number	2016 Number	2017 £	2016 £
Outstanding at 1 January 2017	14,907,679	15,063,274	0.07	0.05
Granted	3,346,000	330,000	0.10	0.08
Forfeited	(484,062)	(434,209)	0.09	0.07
Exercised	-	(48,999)	-	0.08
Expired	-	(2,387)	-	10.57
Outstanding at 31 December 2017	17,769,617	14,907,679	0.07	0.07
Exercisable at 31 December 2017	13,337,755	12,571,700	0.06	0.06

The weighted average share price at the date of exercise for share options exercised during the year was £0.027 (2016 - £0.027).

The weighted average exercise price and weighted average expected and contractual lives for 2015, 2016 and 2017 were:

	2017 £	2016 £	2015 £
Weighted average exercise price	0.100	0.078	0.065
Number of shares	3,346,000	330,000	1,065,500
Weighted average contractual life	10	10	10
Weighted average expected life	5.85	6.20	5.93

The fair value of options granted during the year and the assumptions used in the calculation are as follows:

	01-05-2017	02-08-2017
Exercise price	0.10	0.10
Number of employees	7	63
Shares under option	254,000	3,092,000
Vesting period (years)	10	10
Volatility	42.26%	42.26%
Option life (years)	10	10
Expected life (years)	5.85	5.85
Risk free rate	1.92%	1.92%
Dividend yield	0	0
Fair value (£)	0.001	0.001

The total charge for the year relating to employee share based payment plans was £30,733 (2016: £38,542), all of which related to equity-settled share based payments transactions.

SOLARFLARE COMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**21 Share capital**

	2017 £	2016 £
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
8,400,264 Ordinary shares of 0.125p each	10,500	10,500
	<u>10,500</u>	<u>10,500</u>

**22 Operating lease commitments**

**Lessee**

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

	2017 £	2016 £
Within one year	401,239	297,017
Between two and five years	1,604,956	1,188,068
In over five years	546,256	633,296
	<u>2,552,451</u>	<u>2,118,381</u>

**23 Related party transactions**

No guarantees have been given or received.

During the current and prior period, the company entered into a number of transactions with Level 5 Networks, Inc, the immediate parent company, and Solarflare Communications, Inc, the ultimate parent company.

During the period, the company obtained funds of £9,633,227 (2016: £7,600,965) from Solarflare Communications, Inc and turnover of £9,826,321 (2016: £8,074,950) was receivable for the year from Solarflare Communications, Inc (in 2016, the turnover was receivable from Level 5 Networks, Inc).

At the year end Solarflare Communications, Inc owed the company £65,119 (2016: Level 5 Networks, Inc owed £6,120,185).

**24 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 Investment Partners, L.P. (being Oak X Affiliates Fund, L.P., 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 Investment Partners, L.P.

SOLARFLARE COMMUNICATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**25 Cash generated from operations**

	<b>2017</b>	<b>2016</b>
	<b>£</b>	<b>£</b>
Profit for the year after tax	296,024	1,580,789
<b>Adjustments for:</b>		
Taxation charged	79,981	218,703
Finance costs	21,005	21,080
Investment income	(50,778)	(90,807)
Depreciation and impairment of tangible fixed assets	460,241	356,461
<b>Movements in working capital:</b>		
Decrease/(increase) in debtors	5,780,542	(1,645,340)
(Decrease)/increase in creditors	(51,529)	189,561
<b>Cash generated from operations</b>	<b>6,535,486</b>	<b>630,447</b>