Registered no: 04187081

Truphone Limited
Group and Company Directors' Report and Financial Statements
For the year ended 31 December 2012

Truphone Limited

Contents:

Truphone Limited

Directors and Advisers

Directors

J Dawson
S Robertson
N Burkey
A DeCort
J Fletcher
E W Plattfaut
G E S Robinson
J P Tagg

Company Secretary
G Mappledoram

Registered Office
4 Royal Mint Court
London
EC3N 4HJ

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

Truphone Limited

Directors' report
for the year ended 31 December 2012

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2012

Principal Activity

The principal activity of the group and its subsidiaries (together "the group") in the year under review was that of cellular and telecommunication services

Directors

The statutory directors during the year under review and up to the date of the signing of the financial statements, unless otherwise stated, were

J Dawson
S Robertson
N Burkey
A DeCort (appointed 28 February 2013)
J Fletcher
N C Morland (resigned 28 February 2013)
E W Plattfaut
G E S Robinson
A Straub (resigned 19 March 2012)
J P Tagg

Directors' qualifying third party indemnity

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006 The indemnity was in force throughout the financial year and is currently in force The Company purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors

Business Review

Truphone's goal has always been to tackle the problems that limit global communications by using ground-breaking and patented innovations and state-of-the-art technology to meet the evolving needs of modern business travellers This infrastructure allows the group to treat its customers in exactly the same way regardless of which Truphone country they are based in, call or visit In the year under review, the group further enhanced the way customers in the UK, USA and Australia can enjoy a globally consistent and seamless experience with superior call quality and much better mobile data experience

The refresh of the network infrastructure and systems, largely carried out in 2012, will also allow it to rapidly roll out its value proposition in additional territories, offer compelling global shared voice and data bundles and when the timing is right to expand into consumer and wholesale segments The infrastructure is now wholly redundant and resilient spread across six data centres around the globe

On 1st June 2012, the group acquired the assets and business of Obsidian Wireless Compliant Solutions Ltd through which it had previously provided mobile voice recording solutions to the UK financial services industry subject to FSA regulations The Truphone voice recording product is a market leader with more tier 1 banks connected than its competitors and has expanded its service to US based banks who are likewise subject to Dodd Frank Act regulations

Directors' report for the year ended 31 December 2012 (continued)

Results and dividends

The group's loss for the financial year was £34,390k (December 2011 £29,551k) Total turnover fell by around 3% due to competitive pressures in Startel Communications Co Pty Ltd, a reseller of Optus plans in the local Australian market The directors do not recommend payment of a dividend (December 2011 Nil)

Key performance indicators

The directors monitor the performance of the group with reference to clear targets and performance indicators The group continued to sign up customers to its TruSIM service during the year ended 31 December 2012 which will form an integral part of the KPIs in the future In the meantime, it focuses on the following financial target

Key performance indicator	**2012**	2011
Total turnover (£'000's)	**9,800**	10,137

Post balance sheet events

In January and March 2013, the group successfully completed the final rights issue totalling £9 5m, which formed part of the 2012 funding round The group received £6 6m which took into account the cash advance of £2 9m received in December 2012

On 1st February 2013 the group revealed that it had secured £75m in cash in its latest round of funding from two new shareholders which will fund its activities into Q1 2014

Future Outlook

The new infrastructure was formally commercialised in April 2013 and new customers are already being connected while migration of the existing customers will commence in May The performance and quality of the service is significantly enhanced and both Hong Kong and the Netherlands have also started to sign customers The group remains on schedule to launch services in Germany, Spain and Poland in 2013

As noted earlier, the mobile voice recording product is being deployed into the USA with two tier 1 banks already signed up and more planned The group is planning to roll this service out to other countries where mobile voice recording becomes mandatory

Although the external commercial environment in which the group operates is expected to remain competitive in 2013, the directors are confident that the business is well positioned for the future

Directors' report
for the year ended 31 December 2012 (continued)

Principal risks and uncertainties

There are a number of potential business and operational risks and uncertainties that the group is exposed to, although these are not considered to be any more severe than for other comparable cellular and telecommunications companies adopting similar strategies There is a formal risk assessment review adopted by the group and the executive directors report to the Board on the likelihood of such a risk occurring, the impact on the business and actions that have been take to mitigate such risks

The key risks and the mitigation strategies are as follows

Business risks	**Mitigation strategy**
Loss of customers and declining markets	New flagship TruSIM product launched with continued expansion into new regions and expanding the product offering to additional market segments Voice recording solution to the UK and US financial services sector, which will provide additional turnover streams and opportunities for the business globally
Operational risks	
Failure to hire and retain key employees	Location of the business in the proximity of the required talent pool Regular staff communication and market tested reward and incentive packages
Loss of intellectual property assets	Physical and logical security to the business systems and contractual protection of intellectual property
Disaster recovery and business continuity plans	A business continuity plan is in place including physically separated disaster recovery infrastructure

Financial instruments

The group's operations expose it to limited financial risks that include price risk, credit risk, liquidity risk and foreign exchange risk

Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board The policies set by the Board of directors are implemented by the group's finance department

Credit risk

The group's customer base comprises of individuals as well as larger organisations and management has implemented appropriate credit policies prior to contracting with these clients

Liquidity risk

The group has adequate capital to support the working capital requirement A continued fund raising program along with proactive receivable management enables the group to operate with sufficient working capital

Foreign exchange risk

As a result of operating in foreign markets the group's results could be affected by changes in foreign currency exchange rates The group has international sales and operations in various countries including Australia, USA, Hong Kong and Europe and transacts in those local currencies Foreign exchange translation gains and losses are included in the operating result

The group has currently decided to take no active measures to mitigate foreign exchange risk however will continue to monitor whether this is appropriate as the scale of the group's operations grow

Going concern

For the year ended 31 December 2012, the group made a net loss of £34,390k (31 December 2011 loss of £29,551k) The directors believe that preparing the financial statements on the going concern basis is appropriate due to the following

- In the 12 month period ended 31 December 2012 the group successfully raised an additional £40m of cash in the form of equity,

- The group has produced updated projections through to 31 December 2018 showing operational breakeven within the financial year ending 31 December 2014,

- The group completed a funding round in March 2013 and received a total of £75m in cash from new investors valuing the group at £300m

- The group continues to have discussions with new and current investors, many of which have indicated a strong willingness to participate in future funding rounds

- The group has successfully launched its ground breaking global mobile service and global voice recording solution in multiple countries and is starting to see good demand for the service giving it confidence in meeting its business targets,

- Continued strong interest from its operator partners around the globe potentially allowing the group to adjust its plans according to the network infrastructure upgrade timetable

The management delivered a revised forecast in February 2013 to the Board and the shareholders in support of the 2013 funding round of £75m and which also identified the need for additional investment in Q1 2014 The directors believe that the strategy, set out in 2011 and 2012, of refreshing the network infrastructure and systems in 2012 before expanding the global footprint and customer segments from 2013 and beyond remains valid and will allow the group to realise significant value

Since January 2006, the group has successfully raised over £225m and has every reason to believe that it will attract additional capital in Q1 2014 required to see its strategic plan through to EBITDA and cash flow breakeven within the financial year ended 2014 The directors will continue to closely monitor and rephase business priorities to manage cash utilisation and to sustain operational continuity and therefore believe it appropriate to prepare the financial statements for the year ended 31 December 2012 on a going concern basis These circumstances indicate the existence of a material uncertainty that casts significant doubt over the group's ability to continue as a going concern The financial statements do not include any adjustment to the value of the balance sheets or provision for further liabilities, which should result should the going concern concept not be valid

Truphone Limited

Directors' report
for the year ended 31 December 2012 (continued)

Statement of directors' responsibilities
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 prepared the group and parent company 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 group and the company and of the profit or loss of the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors and disclosure of information

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

(1) so far as the director is aware, there is no relevant audit information of which the group's auditors are unaware, and

(2) each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the group's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 the Companies Act 2006

On behalf of the Board

J Dawson
Chairman

Date 4TH JUNE 2013

Independent auditors' report to the members of Truphone Limited

We have audited the group and parent company financial statements (the "financial statements") of Truphone Limited for the year ended 31 December 2012 which comprise the consolidated profit and loss account, consolidated statement of total recognised gains and losses, consolidated and company balance sheets, the consolidated cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Group and Company Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's loss and cash flows 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

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern The Group requires additional funding to be raised within the next year in order to continue its operations The lack of certainty regarding the Company's ability to raise these funds as explained in note 1 to the financial statements, indicate the existence of a material uncertainty which casts significant doubt about the Company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern

Truphone Limited

Independent auditors' report to the members of Truphone Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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

Gavin Crawford (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

4 June 2013

Truphone Limited

Consolidated profit and loss account for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Turnover	2	**9,767**	10,137
Turnover Acqusitions	2	**33**	-
Turnover		**9,800**	10,137
Cost of sales		**(6,928)**	(8,752)
Gross profit		**2,872**	1,385
Administrative expenses		**(37,863)**	(31,303)
Operating loss	3	**(33,937)**	(29,918)
Operating loss Acqusitions	3	**(1,054)**	-
Operating loss		**(34,991)**	(29,918)
Interest receivable and similar income	4	**65**	37
Interest payable and similar charges	5	**(149)**	(170)
Loss on ordinary activities before taxation		**(35,075)**	(30,051)
Tax credit on loss on ordinary activities	8	**685**	500
Loss for the financial year	19	**(34,390)**	(29,551)

There is no difference between the losses on ordinary activities before taxation and the losses for the year stated above, and their historical cost equivalents

All amounts relate to continuing operations

Consolidated statement of total recognised gains and losses for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Loss for the financial year		**(34,390)**	(29,551)
Items taken directly to reserves			
Currency translation differences on foreign currency net investments	20	**81**	123
Total recognised gains and losses for the year		**(34,309)**	(29,428)

Truphone Limited

Consolidated and company balance sheets as at 31 December 2012

		Group		Company	
		2012	2011	**2012**	2011
	Note	**£000**	£000	**£000**	£000
Fixed assets					
Intangible assets	9	**3,049**	721	**1,996**	138
Tangible assets	10	**14,941**	2,696	**13,708**	1,769
Investments	11	**-**	-	**1,727**	1,206
		17,990	3,417	**17,431**	3,113
Current assets					
Stock	12	**235**	277	**148**	206
Debtors amounts falling due within one year	13	**7,457**	2,847	**5,976**	1,912
Debtors amounts falling due after more than one year	14	**913**	926	**1,295**	1,215
Cash at bank and in hand	28	**3,260**	10,814	**2,224**	10,260
		11,865	14,864	**9,643**	13,593
Creditors: amounts falling due within one year	15	**(12,224)**	(6,553)	**(10,179)**	(4,578)
Net current (liabilities)/assets		**(359)**	8,311	**(536)**	9,015
Total assets less current liabilities		**17,631**	11,728	**16,895**	12,128
Provisions for liabilities	16	**(347)**	(1,454)	**(347)**	(1,008)
Net assets		**17,284**	10,274	**16,548**	11,120
Capital and reserves					
Called up share capital	17	**1**	-	**1**	-
Share premium account	19	**141,460**	101,068	**141,460**	101,068
Other reserves	19	**12,086**	11,140	**11,881**	10,982
Profit and loss account	19	**(136,263)**	(101,934)	**(136,794)**	(100,930)
Total shareholders' funds	20	**17,284**	10,274	**16,548**	11,120

The financial statements on pages 9 to 34 were approved by the board of directors on 4TH JUNE 2013 and were signed on its behalf by

J Dawson
Chairman

Group Registered No 04187081

Truphone Limited

Consolidated cash flow statement for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Net cash outflow from operating activities	27	**(34,323)**	(27,320)
Returns on investments and servicing of finance			
Interest received		**65**	37
Interest paid		**(149)**	(170)
Net cash outflow from returns on investments and servicing of finance		**(84)**	(133)
Taxation		**500**	843
Capital expenditure and financial investment			
Purchase of intangibles		**(2,669)**	-
Purchase of tangible fixed assets		**(13,858)**	(1,251)
Net cash outflow for capital expenditure and financial Investment		**(16,527)**	(1,251)
Acquisitions			
Purchase of new business		**(500)**	-
Net cash outflow for acquisitions		**(500)**	-
Net cash outflow before the use of financing		**(50,934)**	(27,861)
Financing			
Issue of shares		**40,392**	37,513
Cash advances from shareholders		**2,910**	-
Net cash inflow from financing activities		**43,302**	37,513
(Decrease)/Increase in net cash		**(7,632)**	9,652

Reconciliation to net cash		
Net debt at start of year	**10,814**	1,162
(Decrease)/Increase in net cash	**(7,632)**	9,652
Effect of foreign exchanges rate changes	**78**	-
Net cash at 31 December 2012	**3,260**	10,814

Truphone Limited

Notes to the financial statements for year ended 31 December 2012

1 Accounting policies

These financial statements are prepared, on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the UK The principal accounting policies, which have been applied consistently, are set out below

Going concern

For the year ended 31 December 2012, the group made a net loss of £34,390k (31 December 2011 loss of £29,551k) The directors believe that preparing the financial statements on the going concern basis is appropriate due to the following

- In the 12 month period ended 31 December 2012 the group successfully raised an additional £40m of cash in the form of equity,
- The group has produced updated projections through to 31 December 2018 showing operational breakeven within the financial year ending 31 December 2014,
- The group completed a funding round in March 2013 and received a total of £75m in cash from new investors valuing the group at £300m
- The group continues to have discussions with new and current investors, many of which have indicated a strong willingness to participate in future funding rounds
- The group has successfully launched its ground breaking global mobile service and global voice recording solution in multiple countries and is starting to see good demand for the service giving it confidence in meeting its business targets,
- Continued strong interest from its operator partners around the globe potentially allowing the group to adjust its plans according to the network infrastructure upgrade timetable

The management delivered a revised forecast in February 2013 to the Board and the shareholders in support of the 2013 funding round of £75m and which also identified the need for additional investment in Q1 2014 The directors believe that the strategy, set out in 2011 and 2012, of refreshing the network infrastructure and systems in 2012 before expanding the global footprint and customer segments from 2013 and beyond remains valid and will allow the group to realise significant value

Since January 2006, the group has successfully raised over £225m and has every reason to believe that it will attract additional capital in Q1 2014 required to see its strategic plan through to EBITDA and cash flow breakeven within the financial year ended 2014 The directors will continue to closely monitor and rephase business priorities to manage cash utilisation and to sustain operational continuity and therefore believe it appropriate to prepare the financial statements for the year ended 31 December 2012 on a going concern basis These circumstances indicate the existence of a material uncertainty that casts significant doubt over the group's ability to continue as a going concern The financial statements do not include any adjustment to the value of the balance sheets or provision for further liabilities, which should result should the going concern concept not be valid

Notes to the financial statements for the year ended 31 December 2012 (continued)

1 Accounting policies (continued)

Consolidation

The group financial statements consolidate the financial statements of the group and its subsidiary undertakings made up to 31 December 2012 Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct ownership of voting rights Intra-group sales and profits are eliminated fully on consolidation

The financial statements of the group and its subsidiaries included in the consolidated financial statements are prepared using uniform accounting policies

The company has taken the exemption, in line with FRS1 (revised 1996 'Cash flow statements') from the requirement to prepare a cash flow statement on the grounds that its consolidated financial statements, which include the group and present a cash flow statement, are publicly available

Company profit and loss account

As permitted by section 408 of the Companies Act 2006, the company's profit and loss account has not been included in these financial statements The company's profit and loss account shows a loss for its financial year of £35,864k (year ended 31 December 2011 £29,993k)

Turnover

Turnover comprises amounts generated from mobile telecommunication services including voice and SMS transactions, excluding value added tax and other sales related taxation Turnover from subscription fees is recognised evenly throughout the periods to which they relate Turnover from the sale of handsets and related accessories is recognised at the point of dispatch Sales of prepaid minutes are deferred until the customer uses the prepaid value to pay for relevant calls

Share-based payment

The group operates approved and unapproved equity-settled, share-based compensation plans Certain employees of the group are awarded options over the shares in the group The fair value of the employee services received in exchange for these grants of options is recognised as an expense, with a corresponding increase in Other Reserves

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets) Non-market vesting conditions are included in assumptions about the number of options that are expected to vest At each balance sheet date, the group revises its estimates of the number of options that are expected to vest It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to Other Reserves In accordance with FRS 20 'Share Based Payments', fair value calculations have only been made in respect of share options awarded after 7 November 2002 that remained unvested at 1 April 2006

1 Accounting policies (continued)

Employer's National Insurance on share options

Under unapproved share option schemes, the group is required to pay National Insurance on the difference between the exercise price and market value at the exercise date of the shares issued The group becomes unconditionally liable to pay the National Insurance upon exercise of the options The group therefore calculates the provision by applying the latest enacted National Insurance rate to the difference between the market value of the underlying options at the balance sheet date and the option exercise prices A full provision is made upon grant of the option as there is no underlying performance period The amount of the National Insurance actually payable will depend on the number of employees who remain with the group and exercise their options, the market price of the shares at the time of exercise and the prevailing National Insurance rates at the time

Research and development

Research and product development costs are generally expensed through the profit and loss account as incurred unless the costs involved are deemed to meet the criteria for capitalisation These costs are required to be expensed until projects under development reach technological feasibility and financial viability Technological feasibility is determined after a working model of the software has been completed Financial viability is determined when the future turnover exceed the costs incurred The group's research and product development costs related to software development during the year prior to technological feasibility Capitalisation of development costs begins upon the establishment of technological feasibility, limited to the net realisable value of the software product, and ceases when the software product is available for general release to customers Capitalised developments costs are amortised after general release over a three year period and are stated at cost less accumulated amortisation in the balance sheet

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

Intangible fixed assets

Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired Under the accounting standard FRS10 'Goodwill and Intangible Assets', goodwill arising on acquisitions has been capitalised and is being amortised over a three year period, being the period expected to benefit The group evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount if events exist to indicate a potential impairment

When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account

Telecoms licences are amortised on a straight line basis over their licence term

Notes to the financial statements for the year ended 31 December 2012 (continued)

1 Accounting policies (continued)

Tangible fixed assets

The cost of tangible fixed assets comprises the purchase price and any incidental expenses of acquisition Tangible fixed assets are stated at cost less accumulated depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned The principal annual rates used for this purpose are

Buildings	20 years
Computer equipment and software	3 years
Leasehold improvements	Period of lease

No depreciation is provided on land

Fixed asset investments

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment Impairment reviews are performed by the directors when there has been an indication of potential impairment

Stock

Stocks have been valued at the lower of cost and net realisable value Cost is the purchase cost of stock on a FIFO basis with any obsolete stock written off during the year Net realisable value is based on estimated selling price less any further costs to sell

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

Pension costs

Pension contributions in respect of defined contribution pension schemes are charged to the profit and loss account as incurred The assets of the pension plans are held separately from the group in independently administered funds

1 Accounting policies (continued)

Foreign currency

Transactions denominated in foreign currencies are translated at the rate of exchange on the day the transaction occurs

Monetary assets and liabilities of the group companies are translated into sterling at the rates of exchange ruling at the balance sheet date The trading results of overseas subsidiaries are translated at the average rate ruling during the year, with the adjustment between average rates and the rates ruling at the balance sheet date being taken to reserves The difference arising on the restatement of the opening net investment, to overseas subsidiary, are dealt with as adjustments to other reserves All other exchange differences are dealt with in the profit and loss account

Loans and borrowing

Bank and other borrowings are initially stated as the 'net proceeds', being the principal loan element, net of issue and finance costs Issue costs together with finance costs are allocated to the profit and loss account over the term of the facility at the effective rate of interest Accrued finance charges and issue costs are included in the carrying value of those borrowings

Related party transactions

The group under the terms of FRS 8 'Related Party Disclosures', has taken advantage of the exemption not to disclose transactions with other group companies

2 Turnover

The turnover of the group has been wholly derived from its principal activity for which a geographical analysis by destination is given below

	2012	2011
	£000	£000
UK	**3,215**	3,019
US	**267**	314
Australia	**6,318**	6,804
	9,800	10,137

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Operating loss

The group operating loss is stated after charging

	2012 £000	2011 £000
Amortisation – owned assets (note 9)	**830**	938
Depreciation – owned assets (note 10)	**1,635**	1,144
Operating lease charges – other	**1,376**	1,190
Auditors' remuneration – audit services	**74**	58
Auditors' remuneration – non-audit services (tax compliance)	**15**	30
Loss on translation of foreign currency	**33**	104

4 Interest receivable and similar income

	2012 £000	2011 £000
Interest receivable on bank account	**65**	37

5 Interest payable and similar charges

	2012 £000	2011 £000
Other interest payable and similar charges	**149**	170

Truphone Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

6 Employees

Staff costs, including amounts capitalised (note 10) were

	2012	2011
	£000	£000
Wages and salaries	18,823	15,286
Social security costs	2,133	1,896
Costs associated with share based payments (see note 22)	833	1,441
Other pension costs (see note 18)	365	247
	22,154	18,870

The number of staff employed (including Directors) under contracts of service during the year is as follows

	2012	2011
Sales	56	41
Operations	218	187
Administration	41	24
	315	252

7 Directors emoluments

	2012	2011
	£000	£000
Aggregate emoluments	669	976
Compensation for loss of office	-	236
Company contributions to defined contribution pension schemes	9	30
	678	1,242

At 31 December 2012 there was one director to whom retirement benefits under a defined contribution scheme were accruing (2011 one) During the year, there were nil (2011 nil) directors who exercised options over Ordinary shares of the group

7 Directors emoluments (continued)

Highest paid director:

	2012	2011
	£000	£000
Aggregate emoluments, gains on share options exercised and benefits under long term incentive schemes	**400**	471

8 Tax on loss on ordinary activities

	2012	2011
	£000	£000
Current tax		
UK corporation tax on profit for the year	-	-
Adjustment in respect of previous periods	**(703)**	(500)
	(703)	(500)
Foreign tax		
Corporation taxes	**18**	-
Total current tax credit	**(685)**	(500)

No liability to UK corporation tax arose on ordinary activities for the year ended 31 December 2012

The income tax expense for the year differs from the standard rate of corporation tax in the UK of 24 5% (2011 28%) The differences are reconciled below

	2012	2011
	£000	£000
Loss on Ordinary activities before taxation	**(35,075)**	(30,051)
Loss on Ordinary activities multiplied by the average rate of tax in the UK 24 5% (2011 28%)	**(8,593)**	(8,414)
Effects of		
Expenses not deductible for tax purposes	**(41)**	252
Accelerated capital allowances and other timing differences	**1,474**	1,383
Current tax losses for which no deferred tax asset was recognised	**7,160**	6,779
Adjustments to tax charge in respect of previous periods	**(703)**	(500)
Adjustment in respect of foreign taxes	**18**	-
Total current tax credit for year	**(685)**	(500)

Notes to the financial statements for the year ended 31 December 2012 (continued)

8 Tax on loss on ordinary activities (continued)

Deferred taxation

The directors consider that it is unlikely there will be sufficient taxable profits in the immediate future such as to realise the deferred tax asset, and therefore the asset has not been recognised in these financial statements (2011 nil) The deferred tax asset unprovided is as follows

	2012	2011
	£000	£000
Deferred tax asset comprises		
Capital allowances less than depreciation	**677**	477
Short term timing differences	**2,798**	3,355
Trading losses	**23,752**	19,818
Deferred tax asset	**27,227**	23,650

The unrecognised deferred tax asset above includes within trading losses additional deductions associated with research and development tax credits

Factors affecting future tax charges

Announcements were made during 2011 and 2012 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Group The change in the corporation tax rate, effective 1 April 2012, from 26% to 24% was substantively enacted in two steps, initially to 25% on 5 July 2011 and then subsequently to 24% on 29 March 2012 A further reduction to 23%, effective 1 April 2013, was substantively enacted on 3 July 2012 The relevant deferred tax balances have been remeasured The estimated impact of the reduction in the rate to 23% is a deferred tax charge to the profit and loss account of up to £5 9m

A further reduction to 21%, effective from 1 April 2014, has been announced but not substantively enacted at the balance sheet date

9 Intangible fixed assets

Group

	Goodwill	Development costs	Telecoms licences	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2012	7,858	486	323	-	8,667
Additions	1,034	1,129	-	1,006	3,169
Foreign Exchange adjustment	-	-	(12)	-	(12)
At 31 December 2012	**8,892**	**1,615**	**311**	**1,006**	**11,824**
Accumulated amortisation					
At 1 January 2012	7,503	347	96	-	7,946
Amortisation for the year	556	244	30	-	830
Foreign Exchange adjustment	-	3	(4)	-	(1)
At 31 December 2012	**8,059**	**594**	**122**	**-**	**8,775**
Net book amount					
31 December 2012	**833**	**1,021**	**189**	**1,006**	**3,049**
31 December 2011	355	139	227	-	721

Company

	Goodwill	Development costs	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2012	3,710	483	-	4,193
Additions	-	1,097	1,006	2,103
At 31 December 2012	**3,710**	**1,580**	**1,006**	**6,296**
Accumulated amortisation				
At 1 January 2012	3,710	345	-	4,055
Amortisation for the year	-	245	-	245
At 31 December 2012	**3,710**	**590**	**-**	**4,300**
Net book amount				
31 December 2012	**-**	**990**	**1,006**	**1,996**
31 December 2011	-	138	-	138

Notes to the financial statements for the year ended 31 December 2012 (continued)

10 Tangible fixed assets

Group

	Computer equipment & software	Buildings and leasehold improvements	Land	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2012	4,361	431	131	-	4,923
Foreign Exchange adjustment	3	(10)	(3)	-	(10)
Additions	2,280	-	-	11,578	13,858
31 December 2012	**6,644**	**421**	**128**	**11,578**	**18,771**
Accumulated depreciation					
At 1 January 2012	2,184	43	-	-	2,227
Foreign Exchange adjustment	(30)	(2)	-	-	(32)
Charge for the year	1,613	22	-	-	1,635
At 31 December 2012	**3,767**	**63**	**-**	**-**	**3,830**
Net book amount					
31 December 2012	**2,877**	**358**	**128**	**11,578**	**14,941**
31 December 2011	2,177	388	131	-	2,696

Analysis of net book value of land and buildings

	2012	2011
	£000	£000
Freehold	**486**	519

10 Tangible fixed assets (continued)

Company	Computer Equipment & Software £'000	Assets in the course of construction £'000	Total £'000
Cost			
At 1 January 2012	3,504	-	3,504
Additions	1,603	11,578	13,181
31 December 2012	**5,107**	**11,578**	**16,685**
Accumulated depreciation			
At 1 January 2012	1,735	-	1,735
Charge for the year	1,242	-	1,242
At 31 December 2012	**2,977**	**-**	**2,977**
Net book amount			
31 December 2012	**2,130**	**11,578**	**13,708**
31 December 2011	1,769	-	1,769

Included in Assets in the course of construction (Group and Company) are labour costs of £1 7m (2011 £nil) in relation to the development of a new network and billing system

11 Fixed asset investments

Company Shares in subsidiary undertakings	£000
Cost	
At 1 January 2012	2,959
Additions	521
31 December 2012	3,480
Provision	
At 1 January 2012 and 31 December 2012	1,753
Net book amount	
31 December 2012	1,727
31 December 2011	1,206

The £521k of additions is made up predominantly of investing activities in

i) Software Cellular Network Ltd of £140k in respect of the set-up of a new branch registered in the Philippines,

ii) £366k in Tru Obsidian Ltd (note 21)

The directors believe that the carrying value of the investments is supported by their underlying net assets

Notes to the financial statements for the year ended 31 December 2012 (continued)

11 Fixed asset investments (continued)

Subsidiary undertakings:

Company Name	Country of Incorporation	Principal Activity	Percentage Interest	Class of Share	Year end
Software Cellular Network Ltd	UK	Provision of services	100%	Ordinary	31 Mar
SIM4TRAVEL LIMITED	UK	Dormant	100%	Ordinary	31 Mar
Software Cellular Network (North America) Ltd	US	Provision of services	100%	Ordinary	31 Dec
Truphone Poland Sp Z o o	Poland	Provision of services	100%	Ordinary	31 Dec
SCNL Truphone S A	Portugal	Provision of services	100%	Ordinary	31 Dec
Software Cellular Network (Switzerland) GmbH	Switzerland	Provision of services	100%	Ordinary	31 Dec
Smart Call LLC*	US	Provision of services	100%	Ordinary	31 Dec
Startel Communications Co Pty Ltd	Australia	Provision of services	100%	Ordinary	31 Dec
Brizpark Pty Ltd	Australia	Provision of services	100%	Ordinary	31 Dec
Startel Communications Asia Corp*	Philippines	Provision of services	40%	Ordinary	31 Dec
Truphone (Hong Kong) Ltd*	Hong Kong	Provision of services	100%	Ordinary	31 Mar
Truphone Pte Ltd	Singapore	Provision of services	100%	Ordinary	31 Mar
Truphone Spain Ltd	Spain	Provision of services	100%	Ordinary	31 Dec
Tru Pte Ltd*	Singapore	Provision of services	100%	Ordinary	31 Dec
ISmart Mobile LLC*	US	Provision of services	100%	Ordinary	31 Dec
Truworld Pte Ltd*	Singapore	Provision of services	100%	Ordinary	31 Mar
Truphone B V	Netherlands	Provision of services	100%	Ordinary	31 Dec
Truphone GmbH	Germany	Provision of services	100%	Ordinary	31 Dec
Tru Obsidian Ltd	UK	Provision of services	100%	Ordinary	31 Dec

* Not a direct holding of the group

The group is looking to harmonise the accounting periods for all its subsidiaries

12 Stock

	Group 2012 £000	2011 £000	Company 2012 £000	2011 £000
Cellular stock	**185**	101	**136**	79
Parts and accessories	**-**	101	**-**	101
Sim cards	**50**	75	**12**	26
	235	277	**148**	206

13 Debtors: amounts falling due within one year

	Group 2012 £000	2011 £000	Company 2012 £000	2011 £000
Trade debtors	**821**	912	**554**	271
Other debtors	**1,958**	141	**1,848**	111
Corporation tax	**703**	500	**703**	500
Other taxation and social security	**1,582**	81	**1,186**	167
Prepayments and accrued income	**2,393**	1,213	**1,685**	863
	7,457	2,847	**5,976**	1,912

14 Debtors: amounts falling due after more than one year

	Group 2012 £000	2011 £000	Company 2012 £000	2011 £000
Amounts due from group undertakings	**-**	-	**692**	612
Other debtors	**913**	926	**603**	603
	913	926	**1,295**	1,215

Amounts due from group undertakings are unsecured and have no fixed repayment date Included within this amount is £386k (2011 £142k) of interest payable on the loan

Other debtors includes

- Letter of Credit (LOC) for USD$1m, issued in accordance with a Master Service Agreement (MSA) signed for the provision of handsets and services The LOC acts as irrevocable security during the initial two year period of the MSA, and will continue to remain in place upon renewal of the agreement

- USD$500k advance to operator partners which will be recoverable against future invoices from the respective operator, once agreed operational metrics have been satisfied

Notes to the financial statements for the year ended 31 December 2012 (continued)

15 Creditors: amounts falling due within one year

	Group 2012 £000	2011 £000	Company 2012 £000	2011 £000
Trade creditors	**3,422**	2,048	**2,644**	1,396
Taxation and social security	**589**	837	**495**	339
Other creditors	**3,011**	113	**2,958**	105
Amounts due from group undertakings	-	-	**783**	187
Accruals and deferred income	**5,202**	3,555	**3,299**	2,551
	12,224	6,553	**10,179**	4,578

Other creditors includes an amount of £2 9m (2011 £nil) which represents an advance paid to the company by shareholders in relation to ordinary shares issued after the balance sheet date (Note 25)

16 Provisions for liabilities

Group

	Restructuring provision £000	Other £000	Total £000
At 1 January 2012	214	1,240	1,454
Utilised in the year	(214)	(687)	(901)
Charged to the profit and loss account	-	(206)	(206)
At 31 December 2012	-	**347**	**347**

Company

	Restructuring provision £000	Other £000	Total £000
At 1 January 2012	10	998	1,008
Utilised in the year	(10)	(445)	(455)
Charged to the profit and loss account	-	(206)	(206)
At 31 December 2012	-	**347**	**347**

Other provisions' represent the liabilities arising from obligations in connection with a national roaming agreement the group has entered into

17 Called up share capital

Group and Company

	2012 £000	2011 £000
Allotted, called up and fully paid		
52,873,531 Ordinary shares of £0 00001 each (2011 19,691,133 Ordinary shares of £0 00001 each)	1	-
730 B Ordinary shares of £0 001 each (31 December 2011 0 Ordinary shares of £0 001)	-	-
14,397 D Ordinary shares of £0 00001 each (2011 14,397 D Ordinary shares of £0 00001 each)	-	-
	1	-

May 2012
The group issued 8,074,422 Ordinary shares for a total consideration of £9m This included 874,432 shares to Vollin in consideration for underwriting the 2012 funding round

June 2012
The group issued 14,799,989 Ordinary shares for a total consideration of £18 5m

The group also issued 240,000 Ordinary shares in consideration for its App-Less business and assets of Obsidian Wireless Compliant Solutions (note 21)

August 2012
The group issued 68,000 Ordinary shares for a total consideration of £85k as part of an Employee Share Subscription

The group also issued 730 Ordinary B shares for a total consideration of £7k

September 2012
The group issued 9,999,987 Ordinary shares for a total consideration of £12 5m

The B and D shares rank pari passu with the Ordinary shares except that the holders of the B and D Ordinary Shares are not entitled to receive notice of, to attend, to speak or to vote at any general meeting of the group nor to receive or vote on, or otherwise contribute an eligible member for the purposes of a proposed written resolution of the group

18 Pension commitments

The group operates a defined contribution pension scheme The charge for the year represents contributions payable by the group to the fund and amounted to £365k (2011 £247k) paid into defined contribution pension schemes There is an accrual at the year end of £23k (2011 £nil)

Notes to the financial statements for the year ended 31 December 2012 (continued)

19 Reserves

Group	Share Premium Account	Other reserves	Profit and loss account
	£000	£000	£000
At 1 January 2012	101,068	11,106	(101,900)
Loss for the financial year	-	-	(34,390)
Share based payment services provided (note 22)	-	833	-
Exchange difference arising from re-translation of opening balances	-	-	27
Foreign exchange movement	-	81	-
Unissued share capital arising on acquisition of Tru Obsidian Ltd	-	66	-
Premium arising from issue of shares	40,392	-	-
At 31 December 2012	**141,460**	**12,086**	**(136,263)**

Company	Share Premium Account	Other reserves	Profit and loss account
	£000	£000	£000
At 1 January 2012	101,068	10,982	(100,930)
Loss for the financial year	-	-	(35,864)
Share based payment services provided (note 22)	-	833	-
Unissued share capital arising on acquisition of Tru Obsidian Ltd	-	66	-
Premium arising from issue of shares	40,392	-	-
At 31 December 2012	**141,460**	**11,881**	**(136,794)**

Notes to the financial statements for the year ended 31 December 2012 (continued)

20 Reconciliation of movement in shareholders' funds

	Group 2012 £000	2011 £000	Company 2012 £000	2011 £000
Loss for the financial year	**(34,390)**	(29,551)	**(35,864)**	(29,993)
Retranslation of opening balance	**27**	(32)	**-**	-
Foreign exchange movement	**81**	123	**-**	-
Share premium account	**40,392**	37,513	**40,392**	37,513
Shares issued	**1**	-	**1**	-
Unissued share capital arising on acquisition of Tru Obsidian Ltd	**66**	-	**66**	-
Other reserves – credit in respect of share based payments	**833**	1,441	**833**	1,441
Net additions to shareholders' funds	**7,010**	9,494	**5,428**	8,961
Opening shareholders' funds	10,274	780	**11,120**	2,159
Closing shareholders' funds	**17,284**	10,274	**16,548**	11,120

21 Acquisition

On 1 June 2012, the group, through its wholly owned subsidiary Tru Obsidian Ltd, completed the acquisition of the App-Less business and assets of Obsidian Wireless Compliant Solutions Ltd, a company that provides a mobile voice recording solution, in conjunction with Truphone Ltd, for certain companies that are regulated by the Financial Services Authority The net assets acquired are set out below

	Book and Fair Value £000
Tangible fixed assets	**329**
Creditors	**(497)**
Net liabilities	**(168)**
Goodwill	**1,034**
Consideration	**866**
Consideration satisfied by	
Cash	**500**
Shares	**366**
Total	**866**

From the date of acquisition to 31 December 2012 the business contributed £33k to turnover and £1,054k of the operating loss of the group which amounted to £34,390k for the year

22 Share-based payments

Share options – Scheme 1 Approved

At 31 December 2012 the group's employees were members of stock-based compensation plans operated by the group The original options granted vested immediately at a subscribe price equal to the nominal value The subsequent options were granted at the fair market value at the date of granting with a vesting period between 15 months and 3 years All of these arrangements are settled in equity The contractual life of all options is 10 years

A reconciliation of option movements over the year ended 31 December 2012 is shown below

	Number	**2012 Weighted average exercise price**	Number	2011 Weighted average exercise price
Outstanding at start of year	**87,050**	**£9.01**	219,334	£8 64
Granted	**-**	**-**	33,511	£12 16
Forfeited / Cancelled	**(3,200)**	**£9.38**	(165,345)	£9 16
Exercised	**-**	**-**	(450)	£8 67
Outstanding at end of year	**83,850**	**8 99**	87,050	£9 01
Exercisable at end of year	**69,856**	**8.69**	45,906	£8 35

All the 2006 options became exercisable pre 1 April 2006, the date of transition, and therefore fall outside of the scope of FRS 20 'Share Based Payment' No share options were granted in the year For options outstanding at the end of the year within the scope of FRS 20 'Share Based Payment', the range of exercise prices and weighted average remaining contractual life are as follows

Actual exercise price	**Number of shares**	**2012 Weighted average remaining contractual life**	Number of shares	2011 Weighted average remaining contractual life
£4 39	**3,236**	**3.4**	3,236	4 4
£8 69	**10,800**	**4.7**	10,950	5 7
£8 64	**64,364**	**7.3**	67,114	8 3
£16 50	**5,450**	**8 2**	5,750	9 2

The total charge for the year relating to employee share based payment plans was £631k (2011 £1,441k), all of which related to equity-settled share based payment transactions After deferred tax, the total charge was £631k (2011 £1,441k)

22 Share-based payments (continued)

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

	2012	2011
Share price at grant date	-	£66 00
Exercise price	-	£8 64-£16 50
Number of employees	-	6
Shares under option	-	33,511
Vesting period (years)	-	0 to 3 yrs
Expected volatility	-	100%
Option life (years)	-	10 yrs
Expected life (years)	-	3 yrs
Risk free rate	-	1 30%
Expected dividend yield	-	-
Fair value per option	-	£55 33-£59 48

The expected volatility has been difficult to ascribe with certainty since the group is unquoted and lacks historical or meaningful comparisons A high volatility of 100% has been used reflecting the growth potential of the group The maximum vesting period was used to determine the expected life of the option The risk free rate was based on the Bank of England spot yields in effect at the time of grant

Share options – Scheme 2 unapproved

On 19 December 2012 the group set-up a new unapproved share-option scheme for certain employees Options were granted at the fair market value at the date of granting, with a vesting period between 12 months and 3 years All of these arrangements are settled in equity The contractual life of all options is 10 years

A reconciliation of option movements over the year ended 31 December 2012 is shown below

		2012
	Number	**Weighted average exercise price**
Outstanding at start of year	-	-
Granted	**3,855,000**	**£2.00**
Forfeited / Cancelled	-	-
Exercised	-	-
Outstanding at end of year	**3,855,000**	**£2.00**
Exercisable at end of year	-	-

22 Share-based payments (continued)

All of the options granted during the year fall within the scope of FRS 20 'Share Based Payment' and their weighted average fair value was £2 60 For options outstanding at the end of the year within the scope of FRS 20 'Share Based Payment', the range of exercise prices and weighted average remaining contractual life are as follows

Actual exercise price	Number of shares	2012 Weighted average remaining contractual life
£2 00	3,855,000	10.0

The total charge for the year relating to employee share based payment plans was £202k (2011 nil), all of which related to equity-settled share based payment transactions After deferred tax, the total charge was £202k (2011 nil)

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

	2012
Share price at grant date	£3.60
Exercise price	£2 00
Number of employees	57
Shares under option	3,855,000
Vesting period (years)	0 to 3 yrs
Expected volatility	100%
Option life (years)	10 yrs
Expected life (years)	3 yrs
Risk free rate	0.57%
Expected dividend yield	-
Fair value per option	£2 60

The expected volatility has been difficult to ascribe with certainty since the group is unquoted and lacks historical or meaningful comparisons A high volatility of 100% has been used reflecting the growth potential of the group The maximum vesting period was used to determine the expected life of the option The risk free rate was based on the Bank of England spot yields in effect at the time of grant

The group has not provided for any social security contributions as a joint election has been made between the group and the employees to transfer the liability for the secondary social security contributions to the employees

Notes to the financial statements for the year ended 31 December 2012 (continued)

23 Commitments and contingent liabilities

The group has entered into the following agreement which has the following financial commitments attached to it

- In the UK the group entered into a national roaming agreement, which commercially commenced in 2010, for a period of 5 years The agreement contains a take-or-pay element in respect of telecommunications capacity usage, the group's remaining commitment under this as at 31 December 2012 totalled £3 3m (2011 £3 7m)

24 Financial commitments

At 31 December 2012 the group had annual commitments under non-cancellable operating leases expiring as follows

	2012	**2012**	2011	2011
	Land and buildings	**Plant and Equipment**	Land and buildings	Plant and Equipment
	£000	**£000**	£000	£000
Expiring within one year	**1,153**	**1,087**	204	-
Expiring within two to five years	**164**	**230**	84	-
	1,317	**1,317**	288	-

25 Post balance sheet event

In January and March 2013, the group successfully completed the final rights issue totalling £9 5m, which formed part of the 2012 funding round The group received £6 6m which took into account the cash advance of £2 9m received in December 2012

On 1st February 2013 the group revealed that it had secured £75m in cash in its latest round of funding from two new shareholders which will fund its activities into Q1 2014

26 Ultimate controlling party

The directors consider that Vollin Holdings Limited is the majority shareholder and that Redrock Group Limited is the ultimate controlling party and the 100% shareholder of Vollin Holdings Limited's parent, Whiteclif Enterprises Limited

27 Cash flow from operating activities

Reconciliation of operating loss to net cash outflow from operating activities

	2012	2011
	£000	£000
Operating loss	(34,991)	(29,919)
Depreciation charges	1,635	1,144
Amortisation charges	830	938
Unissued share capital arising on acquisition of Tru Obsidian Ltd	66	-
Share based payment expense	833	1,441
Increase in debtors	(4,395)	(1,151)
Increase/(decrease) in stocks	42	(69)
Increase in creditors	1,657	296
Net cash outflow from operating activities	(34,323)	(27,320)

28 Analysis of net debt

Group

	As at 31 December 2011	Cash flow	Exchange movements	As at 31 December 2012
	£000	£000	£000	£000
Cash at bank and in hand	10,814	(7,632)	78	3,260

29 Major non-cash transactions

During the year the share based payment charge accrual was £833k (2011 £1,441k)

30 Related party transactions

During the year the group had the following transactions with companies that are related to the group's key management personnel

i) European Internet Ventures invoiced the group £nil (2011 £274k) for consultancy services There was no balance outstanding at the end of the year (2011 £Nil)

ii) EMCC Software invoiced the group £9k (2011 £109k) for consultancy and network equipment There was an amount of £nil outstanding at the year end (2011· £85k)

iii) CleverSpoke Inc invoiced the group £1k for office space (2011 £nil) and £369k for network equipment (2011 £112k) There was an amount of £21k outstanding at the end of the year (2011 £Nil)

The group issued 874,432 Ordinary Shares to Vollin Holdings Limited, in consideration for underwriting the 2012 funding round

The group also had loan amounts owing to certain directors of £30k (2011 £30k)