



metaswitch

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## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 August 2023



**METASWITCH NETWORKS LTD  
ANNUAL REPORT & FINANCIAL STATEMENTS 2023  
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# **METASWITCH NETWORKS LTD**

## **STRATEGIC REPORT**

### **FOR THE YEAR ENDED 31 August 2023**

The Directors (the "Directors") of Metaswitch Networks Ltd (the "Company" or "Metaswitch") present their Annual Report, together with the financial statements of the Company and Independent Auditor's Report, for the year ended 31 August 2023 (the "Reporting Period"). The Directors, in preparing the Strategic Report, have complied with s414C of the Companies Act 2006.

#### **Operating highlights**

The results for the year are shown on page 13. The Company recorded profit before tax of \$15,223,000 (2022: profit before tax of \$17,872,000). The main movements causing this reduction are a fall in third party revenue of \$6,351,000, and a fall in intercompany revenue of \$31,125,000. There has been partial profit recovery through reduced expenditure. Research and development expenses of \$45,767,000 (2022: \$72,669,000) have fallen due to the allocation of resource to wider product areas within Microsoft, the ultimate parent company and controlling party of the Company. The Company saw year over year decreases in its other key performance indicators (KPIs) with fiscal year 2023 revenue of \$216,995,000 (2022: \$254,471,000), third party revenue of \$165,246,000 (2022: \$171,597,000), the decline driven by a reduction in fixed line voice hardware and services sales, and operating profit of \$13,737,000 (2022: \$17,751,000).

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

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

Metaswitch's mission is to help make Microsoft's Azure cloud computing service the trusted platform for mission-critical, telecommunications services. The Company, working within the Microsoft Azure for Operators group, is ideally placed to develop workloads for the Azure platform that help communications service providers (CSPs) deploy modern fixed and mobile services for consumer and enterprise customers.

Metaswitch's portfolio of software-based, open, scalable network functions and innovative applications continues to be sold directly to CSPs, while also forming the foundation of a new range of cloud-native network functions that are made available under the Azure brand. We continued to replicate our historical success with fixed line traditional operators by delivering "full stack" (from core to application) solutions for voice services, unified communications, and network interconnection, while also delivering core network elements for mobile and converged network operators. As a subsidiary of Microsoft Corporation, Metaswitch has further cemented its position as a trusted supplier of critical communications solutions for network operators, with a full range of on-premises and cloud-based solutions.

Metaswitch continued to provide valuable "Telco DNA" in support of Microsoft's Azure for Operators business goals, modernising and monetising network infrastructure, creating new opportunities for our partner ecosystem, increasing customer satisfaction, and improving service excellence. Critically, Metaswitch remained an important component in Microsoft's objective of meeting operators wherever they are on their journey to the cloud.

#### **Metaswitch vision**

Metaswitch embraced the virtualisation of network functions more than a decade ago, with a clear vision of being a leader in the development of high-performance, cloud-native network software to power communication services that would ultimately rehome from dedicated appliances to hybrid cloud architectures.

Embracing Azure's scale, agility, and rich service environment, we adapt and expand our portfolio to maintain our reputation for product, market and thought leadership. Our engineers play an instrumental role in developing carrier grade hybrid cloud solutions and have pioneered the process of building network functions optimally architected for cloud native environments. With this, we meet our promise of deploying carrier workloads – at scale – in the public cloud, and are now employing this experience to develop modern, leading-edge, voice core offerings that will provide the foundation for critical communications services for the next decade.

# **METASWITCH NETWORKS LTD**

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 August 2023**

#### **Metaswitch vision (continued)**

Meanwhile, we continue to meet customers where they are today, working with operators to maintain and expand their competitive positions and to chart a path to a more cloud-centric future, starting from where their underlying network functions currently reside. We also see considerable opportunity in Azure's ability to manage big data analytics to better optimise deployments and accelerate fault resolution. Our expertise in service assurance now provides the foundation for an analytics approach that is capable of rapidly identifying issues through long-term benchmarking and real-time analysis of logs, telemetry data and alarms and then quickly drilling down to packet-level decodes to resolve complex errors.

As the industry moves to 5G standalone, and beyond, operators will need to continue the virtualisation of their core networks in line with standardised new models for service-based architectures. These architectures confirm that a hybrid cloud deployment model will be the only way to meet the scale and low-latency requirements that a host of next generation services (extending to potentially millions of devices) will demand. Adoption of the cloud will not be an option, or a nice-to-have; it will be the event horizon past which savvy operators will be able to fundamentally improve the cost-efficiencies, service innovation and average revenue per user metrics that will define their success. Critically, Metaswitch technologies are helping monetise these modern network infrastructures, paving the way for generative AI applications, powered by the Azure OpenAI Service, to reimagine the potential of customer communications and elevate their experiences.

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

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

#### **Products and solutions**

Metaswitch has earned a reputation for delivering carrier grade software for voice, data, and unified communications services, coupled to a best-in-class support organisation that together meets the high reliability/high performance needs of real-time CSPs. Our software enables highly reliable voice, video, messaging, and collaboration services, enhances network security, interconnectivity, and analytics, and powers applications on mobile devices and personal computers for work and home.

Our product portfolio covers:

- IP Multimedia Subsystem core components
- Unified communication and collaboration tools
- Softswitches and application servers
- Session border controllers for fixed/mobile voice interconnect and security
- Robocall blocking and caller ID fraud prevention services.

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

As part of Microsoft's Azure for Operators, Metaswitch continues to develop its comprehensive portfolio, maintain deep domain expertise, and create new opportunities for augmented products like Microsoft Teams, with Team Operator Connect, Teams Phone Mobile and Teams Direct Routing solutions.

# **METASWITCH NETWORKS LTD**

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 August 2023**

#### **Principal risks and uncertainties**

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

- **Technology** – the market for communications software and services is characterised by rapid technological advances, frequent introductions of new products, evolving industry standards and recurring or unanticipated changes in customer requirements. In particular, the communications industry is moving away from hardware-centric networks toward software-based networks. The Company seeks to mitigate this risk through making innovative products and services that appeal to our customer base.
- **IP infringement claims** – such claims are common in our industry. Following the acquisition by Microsoft in 2020 intellectual property is held outside the Company, mitigating the risk for Metaswitch Networks Limited. Microsoft seeks to mitigate their risk through patent, copyright and trademark law. However, third parties, including competitors, have and could in the future assert infringement claims, which could force the payment of royalties and/or redesign of software and therefore incur significant costs.
- **Competition** – the Company operates in a competitive market with significant product innovations, so we are subject to the threat of our competitors developing new products in our markets before we make corresponding updates and developments to our own product range, in order to mitigate against this risk the Company is continuously seeking to build on and widen our product portfolio.
- **IT security** – system downtime or a security breach, whether through cyber-attacks or technology failure, could significantly affect the product and services offered to our customers, in addition to the Company's own internal IT systems. The Company works continuously to improve the robustness and security of both customer and Company information technology systems.

#### **Social responsibility**

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

#### **Environment**

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

# **METASWITCH NETWORKS LTD STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 August 2023**

## **Diversity and inclusion**

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

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

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

## **Section 172 Statement**

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

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

# **METASWITCH NETWORKS LTD**

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 August 2023**

#### **Customers**

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

#### **Employees**

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

#### **Suppliers**

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

#### **Environment**

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

#### **Key performance indicators**

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

- Bookings of \$166.9m (2022 - \$162.5m), an increase of 2.7% (2022 – decrease of 8.8%);
- Targeted reliability rate on deployed network services – 5.1 (2022 – 5.5), measured in nines; and
- Maintenance renewal rate of 95.2% (2022 – 98.5%).

**METASWITCH NETWORKS LTD  
STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 August 2023**

**Financial highlights**

Metaswitch produced a steady performance during the 2023 financial year, and continued to invest in R&D. Key financial metrics for the year were as follows:

- Revenue of \$217.0m compared to \$254.5m in the prior year, third party revenue of \$165.2m (2022: \$171.6m), driven by falls in both hardware and services revenue;
- The Company has made an operating profit of \$13.7 compared to \$17.8m profit in the prior year;
- Profit before tax of \$15.2m, a decrease of \$2.7m compared to \$17.9m in the prior year due to the fall in revenue partially mitigated by a fall in expenditure.
- Revenue was derived from a diverse customer base with no single customer in 2023 or 2022 representing more than 10% of revenue. Customers from North America accounted for 50% (2022 – 43%) of revenue and repeat business from existing customers was 99% (2022 – 98%) of revenue;
- A substantial and targeted investment of \$45.8m (2022 - \$72.7m) was made in R&D, which will drive future revenue growth.

**Conclusion and future developments**

For more than forty years, Metaswitch has successfully developed software products and solutions that underpin the reliable communication networks of the world's most recognisable and dependable service providers. Our customers trust us to not only deliver flexible, programmable, and high-performance software products but also to develop innovative, turn-key applications that are deployed rapidly and help acquire and retain revenue-generating consumer and business customers.

As part of Microsoft's Azure for Operators group, we are now uniquely positioned to not only support our global customer base, but also to help drive the deployment of Azure as the platform of choice for communications service providers. By leveraging our customer relationships, deep telco understanding and engineering teams that are tightly integrated into the Microsoft organisation, we will continue to support our established portfolio while simultaneously developing Azure-native solutions that provide operators with advanced service offerings, cost efficiencies and a secure platform that scales and adapts to meet their evolving business needs.

Approved by the Board and signed on its behalf by:



.....  
**Benjamin Orndorff**  
Director

Date: 17 April, 2024

The Broadgate Tower Third Floor  
20 Primrose Street  
London  
EC2A 2RS

# **METASWITCH NETWORKS LTD**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 August 2023**

The Directors present their annual report on the affairs of Metaswitch Networks Limited ('the Company'), together with the financial statements and auditor's report, for the year ended 31 August 2023.

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

#### **Results and dividends**

The income statement is set out on page 13 and shows the profit for the year of \$12,955,000 (2022 - \$14,750,000). No dividends were paid in the current or prior year. No dividends have been proposed in the period following the year under review.

#### **Directors and directors' indemnity**

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

Keith Dolliver  
Benjamin Orndorff

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

#### **Disabled persons**

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

#### **Personnel involvement**

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

#### **Engagement with suppliers and customers**

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

#### **Political and charitable donations**

During the year ended 31 August 2023, charitable donations of \$nil are included in the income statement (2022 - \$443,000). There were no political donations made in the current or prior year.

#### **Branches**

The Company has branches, as defined in section 1046(3) of the Companies Act 2006, outside the United Kingdom as follows: i) Hong Kong ii) Singapore; and iii) subsidiaries in the United States and other territories (note 7).

# **METASWITCH NETWORKS LTD**

## **DIRECTORS' REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 August 2023**

#### **Research and development and future developments**

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

#### **Going concern**

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

#### **Financial risk**

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

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

#### **Directors' responsibilities statement**

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

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

In preparing these financial statements, the directors are required to:

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

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

**METASWITCH NETWORKS LTD  
DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 August 2023**

**Auditor**

Deloitte LLP have expressed their willingness to continue in office as auditor. Unless the members take action (as set out in section 488 of the Companies Act 2006) to prevent the deemed reappointment of the auditor, Deloitte LLP will be deemed to be reappointed for the financial year ending on 31 August 2024 at the end of the period for appointing auditors.

**Statement of disclosure to auditor**

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

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

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

Approved by the Board and signed on its behalf by:

  
.....  
**Benjamin Orndorff**  
Director

Date: 17 April, 2024

The Broadgate Tower Third Floor  
20 Primrose Street  
London  
EC2A 2RS

# **METASWITCH NETWORKS LTD INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED 31 August 2023**

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

### **Report on the audit of the financial statements**

#### **Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 August 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statements of changes in equity; and
- the related notes 1 to 18.

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

#### **Basis for opinion**

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

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

#### **Conclusions relating to going concern**

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

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

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

#### **Other information**

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

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

We have nothing to report in this regard.

**METASWITCH NETWORKS LTD**  
**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 August 2023**

**Responsibilities of directors**

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

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

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

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

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

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

- **Cut-off of revenue recognition:** We performed substantive testing on a sample of sales to confirm the evidence relating to percentage completion applied for bundled contracts to determine the cut off for revenue, assessing if the revenue had been recognised in the appropriate period

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

**METASWITCH NETWORKS LTD  
INDEPENDENT AUDITOR'S REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 August 2023**

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

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

**Report on other legal and regulatory requirements**

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

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

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

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

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

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

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

We have nothing to report in respect of these matters.

**Use of our report**

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

*Helen Burridge*

**Helen Burridge (Senior statutory auditor)**  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
Date: 17 April 2024

**METASWITCH NETWORKS LTD**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 August 2023**

		Year ended 31 August 2023	Year ended 31 August 2022
	Notes	\$'000	\$'000
Revenue	3	216,995	254,471
Cost of sales		(30,224)	(35,792)
<b>Gross profit</b>		<b>186,771</b>	<b>218,679</b>
Sales and marketing expenses		(6,761)	(5,615)
Research and development expenses		(45,767)	(72,669)
General and administrative expenses		(120,506)	(122,644)
<b>Operating profit</b>	4	<b>13,737</b>	<b>17,751</b>
Finance income	5	1,486	121
<b>Profit before tax</b>		<b>15,223</b>	<b>17,872</b>
Tax charge	6	(2,268)	(3,113)
<b>Profit for the year</b>		<b>12,955</b>	<b>14,759</b>

All amounts are derived from continuing activities. The notes on pages 18 to 37 form part of these financial statements.

**METASWITCH NETWORKS LTD**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 August 2023**

	<b>Year ended 31 August 2023 \$'000</b>	<b>Year ended 31 August 2022 \$'000</b>
Profit for the year	<b>12,955</b>	<b>14,759</b>
Items that will be reclassified to profit and loss:		
Foreign exchange translations	<b>(4)</b>	<b>(17)</b>
<b>Total comprehensive income for the year</b>	<b>12,951</b>	<b>14,742</b>

**METASWITCH NETWORKS LTD**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 August 2023**

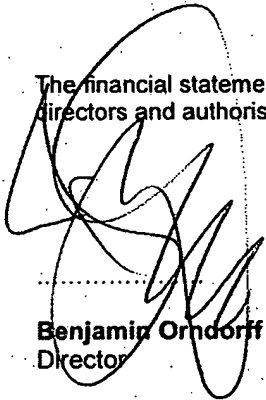
	Notes	31 August 2023 \$'000	31 August 2022 \$'000
<b>Non-current assets</b>			
Investments in subsidiaries	7	194	194
Deferred tax assets	8	1,021	828
		<u>1,215</u>	<u>1,022</u>
<b>Current assets</b>			
Inventories	9	737	901
Trade and other receivables	10	73,270	67,989
Contract costs	3	2,849	2,978
Contract assets	3	8,781	4,816
Current tax assets		11,060	8,920
Cash and cash equivalents		11,785	10,992
		<u>108,482</u>	<u>96,596</u>
<b>Total assets</b>		<u>109,697</u>	<u>97,618</u>
<b>Current liabilities</b>			
Trade and other payables	11	37,712	38,002
Contract liabilities	3	55,790	56,372
Provisions	12	200	200
		<u>93,702</u>	<u>94,574</u>
<b>Total liabilities less current liabilities</b>		<u>15,995</u>	<u>3,044</u>
<b>Net assets</b>		<u>15,995</u>	<u>3,044</u>

**METASWITCH NETWORKS LTD**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AS AT 31 August 2023**

	Notes	31 August 2023 \$'000	31 August 2022 \$'000
<b>Equity</b>			
Retained earnings	13	4,036	(8,919)
Translation reserve	13	(198)	(194)
Capital contribution	13	12,157	12,157
		<u>15,995</u>	<u>3,044</u>

The notes on pages 18 to 37 form part of these financial statements.

The financial statements of FRS 101 Metaswitch Networks Limited (registered number 01578918) were approved by the board of directors and authorised for issue on 17 April, 2024. They were signed on its behalf by:



Benjamin Orndorff  
 Director

**METASWITCH NETWORKS LTD**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 August 2023**

	Share capital	Capital contribution	Translation reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 September 2021</b>	-	12,157	(177)	(23,678)	(11,698)
Profit for the year	-	-	-	14,759	14,759
Other comprehensive loss for the year	-	-	(17)	-	(17)
<b>Total comprehensive income/(loss) for the year</b>	-	-	(17)	14,759	14,742
<b>At 31 August 2022</b>	-	12,157	(194)	(8,919)	3,044

	Share capital	Capital contribution	Translation reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 September 2022</b>	-	12,157	(194)	(8,919)	3,044
Profit for the year	-	-	-	12,955	12,955
Other comprehensive loss for the year	-	-	(4)	-	(4)
<b>Total comprehensive income/(loss) for the year</b>	-	-	(4)	12,955	12,951
<b>At 31 August 2023</b>	-	12,157	(198)	4,036	15,995

All amounts are derived from continuing activities. The notes on pages 18 to 37 form part of these financial statements.

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 August 2023**

**1. Accounting policies**

**1.1 General Information**

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

**1.2 Basis of preparation**

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

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

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, certain disclosure in respect of revenue from contracts with customers and certain related party transactions.

Where relevant, equivalent disclosures have been given in the group accounts of Microsoft Corporation. The group accounts of Microsoft Corporation are available to the public and can be obtained as set out in note 18.

**1.3 Adoption of new standards and interpretations**

In the current year amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective in relation to Onerous Contracts – Cost of Fulfilling a Contract IAS 37 and Financial Instruments IFRS 9 do not have any material impact on the disclosures or on the amounts reported in these financial statements.

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**1. Accounting policies (continued)**

**1.4 Going concern**

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

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

- trading forecasts (taking into account reasonably possible changes in trading performance) show that the Company expects to remain profitable for the next 12 months following approval of this annual report. See also the Operating highlights section on page 1 of the Strategic Report which sets out the intra-company agreements in place;
- the Company's cash balance at 31 August 2023 was \$11.8m (2022 - \$11.0m);
- Microsoft Corporation have provided a letter of support confirming that as the ultimate parent company it will continue to support Metaswitch Networks Limited in meeting its liabilities as and when they fall due for the foreseeable future being at least 12 months from the date of approval of these financial statements. While considering the ability of Microsoft Corporation to provide this support, the directors have reviewed 2023 operating results and financial performance of Microsoft Corporation.

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

**1.5 Foreign currencies translation**

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

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

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

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

**1.6 Inventories**

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**1. Accounting policies (continued)**

**1.7 Revenue recognition**

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

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

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

**Identify the contract(s) with the customers**

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

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**1. Accounting policies (continued)**

**1.7 Revenue recognition (continued)**

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

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

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

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

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

**Determine the transaction price**

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

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

**Allocation of the transaction price**

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

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

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

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

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

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**1. Accounting policies (continued)**

**1.7 Revenue recognition (continued)**

**Acceptance clauses**

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

**Hardware and licences**

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

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

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

**Professional services**

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

**Installation and commissioning services**

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

**Maintenance**

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**1. Accounting policies (continued)**

**1.7 Revenue recognition (continued)**

**Royalties**

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

**Contract balances**

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

**Costs to obtain a contract**

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

**Costs to fulfil a contract**

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

**Intercompany revenue**

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

**1.8 Taxation**

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

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted by the reporting date.

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

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

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**1. Accounting policies (continued)**

**1.9 Research and development expenditure credit (RDEC)**

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

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

**1.10 Financial assets and financial liabilities**

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

*Financial assets*

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**1. Accounting policies (continued)**

**1.10 Financial assets and financial liabilities (continued)**

*Impairment of financial assets*

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

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

*Derecognition of financial assets*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

*Financial liabilities*

Financial liabilities are measured at amortised cost using the effective interest method.

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

**1.11 Provisions**

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

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

**1.12 Investments in subsidiary undertakings**

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

**1.13 Cash and cash equivalents**

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**2. Critical accounting judgements and key sources of estimation uncertainty**

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

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

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

**Revenue recognition (including costs to fulfil a contract)**

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

**b) Sources of uncertainty related to estimate and assumptions**

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**3. Revenue**

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

	2023 \$'000	2022 \$'000
Sale of hardware	7,116	10,531
Sale of perpetual licenses	33,521	33,805
Sale of subscription licenses	20,428	18,066
Provision of services	22,435	28,453
Maintenance	80,050	78,935
Royalty income	1,696	1,807
Intercompany revenue	51,749	82,874
	<u>216,995</u>	<u>254,471</u>

Of the \$217.0m (2022 - \$254.5m) total revenue recognised \$32.5m (2022 - \$35.7m) was recognised at a point in time, with the remaining revenue recognised over time.

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

**Analysis by geographical area**

	2023 \$'000	2022 \$'000
United States of America	107,497	109,577
Republic of Ireland	53,395	84,311
Rest of the World	56,103	60,583
	<u>216,995</u>	<u>254,471</u>

**Contract balances**

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**3. Revenue (continued)**

	2023			2022		
	Contract assets \$'000	Contract costs \$'000	Contract liabilities \$'000	Contract assets \$'000	Contract costs \$'000	Contract liabilities \$'000
As at 1 September	4,816	2,978	(56,372)	3,732	1,270	(55,750)
Revenue recognised that was included in the contract costs/liability at the start of the period	-	(1,796)	43,683	-	(1,188)	43,264
Increase due to amounts invoiced, excluding amounts recognised as revenue during the year	-	-	(46,723)	-	-	(45,582)
Transfers from contract assets recognised at the start of the period to receivables	(3,140)	-	-	(3,044)	-	-
Transfer from contract cost accruals recognised at the start of the period to payables	-	-	2,224	-	-	3,848
Reclassify current year contract cost accruals to trade payables	-	-	-	-	-	-
Increases as a result of changes in the measure of progress and contract costs to obtain and fulfil contracts, including new contracts obtained during the year	7,105	1,667	1,398	4,128	2,896	(2,152)
As at 31 August	<u>8,781</u>	<u>2,849</u>	<u>(55,790)</u>	<u>4,816</u>	<u>2,978</u>	<u>(56,372)</u>

Amounts held in trade receivables in respect of contracts were \$24.9m (2022 - \$27.4m). The directors of the Company always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL taking into account the historical default experience.

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**4. Operating profit**

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Operating profit is stated after charging/(crediting):		
Net foreign exchange (gain)/loss	(1,441)	1,462
Auditor's remuneration (audit of the financial statements)	287	239
Impairment of inventories	15	287
Research and development expenditure	45,767	72,669
	<u>                    </u>	<u>                    </u>

Auditor's remuneration of \$42,000 (2022: \$36,000) has also been incurred on behalf of the parent company, related to the audit of the parent financial statements. Within Research and development expenditure a Research and Development Expenditure Credit (RDEC) of \$2.6m (2022: \$4.8m) has been recognised.

**5. Finance income**

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest receivable from fellow group undertaking	1,486	121
	<u>                    </u>	<u>                    </u>
	<u>1,486</u>	<u>121</u>

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**6. Tax charge**

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>a) Taxation recognised in the income statement</b>		
<b>Current tax expense</b>		
UK corporation tax charge	3,028	3,474
Adjustments in respect of prior years	(567)	(159)
	<hr/>	<hr/>
Total current tax charge for the year	2,461	3,315
	<hr/>	<hr/>
<b>Deferred tax charge</b>		
Current year	225	455
Change in tax rate	32	(199)
Adjustments in respect of prior years	(450)	(458)
	<hr/>	<hr/>
Total deferred tax credit for the year (note 8)	(193)	(202)
	<hr/>	<hr/>
Total tax charge for the year	2,268	3,113
	<hr/>	<hr/>

UK Corporation tax is calculated at 21.52% (2022 – 19%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions. The current tax asset of \$11.1m relates to both RDEC and corporation tax receivable, \$5.7m has been received post year end.

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**6. Tax charge (continued)**

**b) Reconciliation of total tax charge to accounting profit**

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before tax	15,223	17,872
Tax charge on Company profit at standard UK corporation rate of 21.52% (2022 – 19%)	3,275	3,396
Tax effect of:		
Expenses not tax deductible	15	107
Different tax rates in branches operating in other jurisdictions	(6)	(10)
Change in tax rate	32	(199)
Adjustments in respect of prior years	(1,017)	(617)
Impact of changes to exchange rates	(31)	436
	<hr/>	<hr/>
Company income tax charge for the year	<b>2,268</b>	<b>3,113</b>
	<hr/>	<hr/>

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**7. Investments in subsidiaries**

	<b>Shares in subsidiary undertakings \$'000</b>
<i>Cost</i>	
<b>At 1 September 2022 and 31 August 2023</b>	<b>8,171</b>
<i>Impairment</i>	
<b>At 1 September 2022 and 31 August 2023</b>	<b>7,977</b>
	<hr/>
<i>Carrying amount</i>	
<b>At 31 August 2023</b>	<b>194</b>
	<hr/>
<b>At 31 August 2022</b>	<b>194</b>
	<hr/>

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

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**7. Investments in subsidiaries (continued)**

<b>Name</b>	<b>Nature of business</b>	<b>Country of incorporation and registration</b>	<b>Registered office address</b>
Metaswitch Networks S.A.R.L.	Sales and marketing support to the parent company	France	15 Rue Taitbout, 75009, Paris, France
Metaswitch Networks Pty Ltd	Sales and marketing support to the parent company	Australia	Level 10, Tower 4, World Trade Centre 611 Flinders Street Melbourne Victoria 300
Metaswitch (Thailand) Ltd	Sales and marketing support to the parent company	Thailand	90/40-41 Sathorn Thani Building 1, 15 Floor, North Sathorn Road, Silom Sub-district, Bangrak District, Bangkok Metropolis, Thailand
Metaswitch Networks Ltd Mexico <sup>(1)</sup>	Sales and marketing support to the parent company	Mexico	Edificio Terret Blvd. Miguel de Cervantes Saavedra 301, Torre Sur. Piso 14, Col. Granada, Mexico City 11520, Mexico
Metaswitch Networks Inc	Sales and marketing support to the parent company	Canada	1000 rue de la Gauchitiere Ouest, Montreal, H3B 4W5
Open Cloud Spain SL	Software development and information technology services	Spain	c/o Juan Bravo No 3-A, 28006, Madrid, Spain
Open Cloud Inc	Dormant	USA	350 Bay Street, #224, San Francisco, CA 94113, USA
Open Cloud Japan Limited	Dormant	Japan	8-1 Minami-Aoyama, 7-Chrome, Minato-ku, Tokyo, Japan
Metaswitch Networks Indonesia	Software development and information technology services	Indonesia	Menara Kadin Indonesia, Level 30 Jalan H.R.Rasuna Said Kav 2-3, Block X-5 Kav. 2-3, 12950 Jakarta, Indonesia.
Metaswitch Networks Malaysia Sdn. Bhd	Administrative and support to the parent company	Malaysia	Unit 3201, Level 32, Tower B, The Vertical Corporate Towers, Avenue 10, Bangsa, No. 8 Jalan Kerinchi, Kuala Lumpur, 59200, Malaysia
Metaswitch Networks Taiwan Co. Ltd	Dormant	Taiwan	11F No. 963 Zhongzheng Road, New Taipei City 235, Taiwan ROC

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**8. Deferred tax assets**

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

	Property, plant & equipment \$'000	Retirement benefits \$'000	Other temporary differences \$'000	Total \$'000
At 1 September 2021	466	145	15	626
Adjustments in respect of prior periods	113	-	345	458
(Charge)/credit to income statement	58	46	(360)	(256)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 August 2022</b>	<b>637</b>	<b>191</b>	<b>-</b>	<b>828</b>
Adjustments in respect of prior periods	527	(102)	25	450
Charge to income statement	(177)	(55)	(25)	(257)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 August 2023</b>	<b>987</b>	<b>34</b>	<b>-</b>	<b>1,021</b>

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**8. Deferred tax assets (continued)**

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

	2023 \$'000	2022 \$'000
<b>Recognised (gross)</b>		
Other timing differences	4,084	3,312
	<u>4,084</u>	<u>3,312</u>
<b>Unrecognised (net)</b>		
Tax losses	3,762	3,762
Other timing differences	1,590	1,590
	<u>5,352</u>	<u>5,352</u>
<b>Total</b>	<u>9,436</u>	<u>8,664</u>

No deferred tax asset has been recognised on the \$3.8m (2022 - \$3.8m) net losses due to the uncertainty of the amount and timing of taxable profits against which the tax losses would be utilised (as these are restricted). All losses, recognised and unrecognised, may be carried forward indefinitely.

**9. Inventories**

	2023 \$'000	2022 \$'000
Finished goods	737	901
	<u>737</u>	<u>901</u>

Included within cost of sales are \$3.4m (2022 - \$3.9m) of inventories recognised as an expense during the year.

**10. Trade and other receivables**

	2023 \$'000	2022 \$'000
Trade receivables	24,919	27,384
Other receivables	74	39
Prepayments	44	270
Amounts due from subsidiary undertakings	987	1,005
Amounts due from fellow subsidiary undertakings	47,246	39,291
	<u>73,270</u>	<u>67,989</u>

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

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**11. Trade and other payables**

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	2,193	3,423
Other payables	38	584
Accruals	3,619	1,272
Amounts due to subsidiary undertakings	475	337
Amounts due to fellow subsidiary undertakings	31,387	32,386
	<u>37,712</u>	<u>38,002</u>

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

**12. Provisions**

	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Warranty provision</b>		
At 1 September 2022	200	200
Utilisations	(177)	(121)
Charge to the income statement	177	121
	<u>200</u>	<u>200</u>
<b>At 31 August 2023</b>	<u>200</u>	<u>200</u>

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

**13. Share capital and reserves**

**a) Share capital**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
<b>Allotted, called up and fully paid</b>		
29,838,549 Ordinary Shares of 1/3000 p each (2022 – 29,838,549)	137	137
	<u>137</u>	<u>137</u>

**METASWITCH NETWORKS LTD**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 AUGUST 2023**

**13. Share capital and reserves (continued)**

**b) Reserves**

Retained earnings represent total income and expense in the current and prior years attributable to shareholders, less cumulative dividends to shareholders.

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

In the year ended 31 August 2020 a payment made by Microsoft, on behalf of the Company of \$12,157,441 to settle employee shares was treated as a capital contribution.

**14. Staff costs**

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

**15. Compensation of key management personnel**

The key management personnel of the Company comprise the Executive Directors, Corporate Vice President, and the Chief Financial Officer. In the years ended 31 August 2023 and 31 August 2022 no directors received remuneration in respect of qualifying services as directors of the Company. No shares were received or receivable by the directors in respect of qualifying services under any long-term incentive scheme.

**16. Related party transactions**

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

**17. Contingent liabilities**

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

**18. Ultimate controlling party**

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