

# Sustained Progress

Annual Report and Accounts for the year ended 31 March 2023



## About Us

### Introduction

Calnex Solutions designs, produces and markets test and measurement instrumentation and solutions for the telecoms and cloud computing industries. Calnex's portfolio enables R&D, pre-deployment and in-service testing for network technologies and networked applications, enabling its customers to validate the performance of the critical infrastructure associated with telecoms and cloud computing networks and the applications that run on it.

To date, Calnex has secured and delivered orders in 68 countries across the world. Customers include BT, China Mobile, NTT, Ericsson, Nokia, Intel, Qualcomm, IBM and Meta.

Founded in 2006, Calnex is headquartered in Linlithgow, Scotland, with additional locations in Belfast, Northern Ireland, Stevenage, England and California in the US, supported by sales teams in China and India. Calnex has a global network of partners, providing a worldwide distribution capability.



## FY23 Highlights

## Revenue

27,449

+25%

Underlying EBITDA<sup>1</sup>

7,980

+26%

## Profit before tax

7,208

+21%

Closing cash and fixed term deposits<sup>2</sup>

19,098

+24%

- 1 Refer to note 33 for explanation of the alternative performance measures calculations. A full reconciliation between Underlying EBITDA and profit before tax is also shown in the Financial Review on page 26.
- 2 The Company takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment.



For more information, please visit  
[www.calnexsol.com](http://www.calnexsol.com)

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## Company Information

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## Highlights

# FY23 Highlights

Revenue (€'000)

27,449

FY22: 22,046

+25%

Underlying EBITDA<sup>1</sup> (€'000)

7,980

FY22: 6,351

+26%

Profit before tax (€'000)

7,208

FY22: 5,973

+21%

Basic EPS (pence)

6.75

FY22: 5.19

+30%

Diluted EPS (pence)

6.42

FY22: 5.00

+28%

Closing cash and fixed term deposits<sup>2</sup>

19,098

FY22: 15,357

+24%

- 1 Refer to note 33 for explanation of the alternative performance measures calculations. A full reconciliation between Underlying EBITDA and profit before tax is also shown in the Financial Review on page 26.
- 2 The Company takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment.



## Financial Highlights

- Revenue growth of 25% to £27.4m (FY22: £22.0m).
- Growth in profit before tax of 21% to £7.2m (FY22: £6.0m).
- Closing cash position, including fixed term deposits, of £19.1m (31 March 2022: £15.4m).
- Proposed final dividend of 0.62 pence per share, making a total of 0.93 pence per share for FY23 (FY22: 0.84 pence).

## Operational Highlights

- Successful mitigation of well-documented supply chain challenges, delivering all orders as planned.
- Growing relationship with hyperscale customers, securing one significant contract and seed unit sales into two other hyperscalers during the year.
- Encouraging early uptake of Sentry, our Network Synchronisation product launched in H2.
- Full integration of iTrinegy, expected to be an important contributor to future profit.
- Increased staffing levels across business development, sales, R&D, and support roles, to support growing customer demand, new product development and maximise exposure in new and existing territories.

## Outlook

- Trading in Q1 FY24 has continued as anticipated, and the Board is confident in delivering results for the year in line with market expectations as revised in March 2023.
- Whilst customer budgets continue to be restricted in the near term, customer engagement levels remain high and Calnex's mid-term order funnel has strengthened during Q1 FY24, although the timing of conversion of these opportunities into orders remains unclear.
- The breadth of Calnex's customer base across multiple regions, expanding product portfolio and strong balance sheet, alongside the market's structural growth drivers, provide continued confidence in the future.

## Market Overview

# Market Overview

Calnex supplies its technology to two growing markets: the telecoms industry and the cloud computing industry.

### Telecoms industry

The telecoms industry is a highly competitive environment, requiring innovative products, technologies and services to support investment in new digital infrastructure.

The industry comprises equipment vendors, such as Nokia, Ericsson, Cisco and Huawei, which develop hardware and software systems for deployment by network operators, such as BT, China Mobile and AT&T, within their networks. Component manufacturers, such as Intel, Broadcom and Qualcomm, sell components and sub-assemblies to equipment vendors, which are then built into their products.

### Cloud computing

Hyperscale/large enterprise entities, such as Meta (previously Facebook), Amazon, Google and Dell that build and create their own data centres, networks and/or equipment also create an opportunity for Calnex. These implementations utilise similar technology to that used in the telecoms industry, often conforming to the same international standards originally developed for telecoms network deployment. This group of customers represents an emerging opportunity to expand the Group's addressable market. All of these market participants in telecoms and cloud computing are either actual or potential end customers of Calnex.

The pervasive availability of data centre access is resulting in many enterprise companies moving their Applications and Services to be hosted and operated in cloud computing environments rather than in-house computing equipment. The need to verify performance of Applications in the presence of real-world network effects where their target users demand high quality user experience is a potential market opportunity for Calnex. The acquisition of iTrinegy to add the NE-ONE to our Product Portfolio provides the Group the opportunity to develop an attractive new market with companies developing software Applications hosted in-house or by cloud services.

### Why is testing needed?

Global telecoms networks are extremely diverse and when changes are introduced it is vital that the new network conditions can be tested effectively both prior to and following technical deployment. The test and measurement sector is an integral part of developing,

building and maintaining all telecom and data networks, whether they are deployments by telecoms operators or within data centres. In both deployment scenarios, the role of test equipment is the same, to prove performance, which enables market participants to develop, manufacture, deploy and maintain telecoms equipment and networks.

The transition to 5G and the growth in cloud computing will increase the market for test instrumentation, from both new and existing customers, across each of the Group's customer categories. The requirement for design validation, conformance test and maintenance testing is more prevalent than ever as new standards and technology movements drive the need for network operators, equipment and component vendors, plus hyperscale/enterprise customers, to validate equipment and network performance.

### Test and measurement market segmentation

Testing and measurement is typically carried out at each stage of the development cycle, and it is therefore crucial that this can be performed reliably to prove conformance to the standards required by market participants and regulators.

Calnex is focused on the *Design Validation, Conformance Test and Maintenance Test phases of the development life-cycle*, which are high value niches, due to their position at critical points in the development life-cycle. All these stages in the development cycle require significant technical capability using high value-add test equipment and there are high barriers to entry for new participants. The competitive landscape varies between all Product families, but in all cases, Calnex looks to either be the market leader or a leading participant.

These markets all require test solutions that provide deep insight to performance where the quality of result and information obtained is critical. Whilst the cost of capital investment in test equipment is important to market participants, ensuring that engineering elapsed time to test can be minimised is a key priority. Long testing phases delay the release of new products, which reduces new product revenue to equipment vendors. Network operators are also impacted by long resolution times which limit network capability.

In the test phases targeted by Calnex, customers need to have confidence that the test equipment they purchase is reliable and will enable them to carry out the necessary testing efficiently. Calnex has consistently delivered such products to its customers.

## New product development cycle



### A growing opportunity

The global spend on Mobile Network Infrastructure is predicted in a recent Frost & Sullivan report<sup>3</sup> to grow from US\$61.3 billion in 2022 to US\$73.5 Billion in 2027, with a CAGR of 3.7%. This spend is split across the three constituent elements of the telecommunications network, namely, Core network, the Transport network and RAN network, (the Radio Access Network is the network supporting and including the radio connections to mobile phone users). 67% of this spend is in the RAN network, which is a primary focus of Calnex’s products.

The expansion of the scale and numbers of data centres continues. A recent report suggested there are already over 8,000 data centres across the world, with the US hosting the largest share. Between them, the US, UK, Germany and China host around 50% of all data centres<sup>4</sup>. The initial opportunity for Calnex from companies operating data centres was created with their utilisation of very high-speed interfaces. Calnex identified that data centres would need to test and measure the time synchronisation to the servers within these data centres. The build-out of these data centres remains a dynamic environment where new services delivered by data centres, such as network hosting, are anticipated to generate further requirements for test solutions that may produce additional opportunities for Calnex in the future.

### What are telecommunications and network standards?

Standards and recommendations within the telecoms testing sector are published documents that establish mandatory or recommended specifications and procedures designed to ensure the interoperability of equipment from multiple equipment vendors, set the minimum performance of equipment and define the core needs of networks.

Standards are critically important within the telecoms industry as they act as the key driver for how networks will be developed, establishing the performance and testing requirements for infrastructure, equipment, application and service product development. Without standards, network equipment interoperability and the provision of interconnected services would not be possible.

While there are a number of well-established bodies that have been developing standards for many years, (like the International Telecommunications Union, ‘ITU-T’), a number of new forums are gaining market traction. These include O-RAN Alliance (Open Radio Access Network Alliance, <https://www.o-ran.org/>), which is focused on the promotion of increased participation in the development of equipment for deployment in the

network supporting the mobile radio transmission equipment in mobile networks, and the OCP (Open Compute Project, <https://www.opencompute.org/>), which has a mission to “apply the benefits of open source and open collaboration to hardware and rapidly increase the pace of innovations in, near and around data centres” (<https://www.opencompute.org/about>). The development of recommendations from both of these forums is increasing the addressable market for test equipment as more companies and more groups within established companies look to develop and promote equipment conforming to these recommendations.

Ensuring new equipment and services comply with new standards is vital to market participants and is a key driver of the test and measurement sector.

Calnex, since inception, has developed and maintained a close involvement with standards bodies to ensure it has early insight as to industry developments to keep the Group’s R&D programmes well informed.

Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements.

### Our differentiation

The Group will continue to track developments in technology and standards in markets where it already benefits from a strong market position with limited direct competition. Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements gained from its close relationships with end customers, market participants and international standards bodies, which together act as a significant barrier to entry to potential competitors.

Calnex’s products are often differentiated by their high specifications and the complexity of the product platforms. The Group is highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets. By delivering the optimal solution at the right time, market leading products with high end functionality can achieve healthy margins.

Calnex continues to work closely with customers and the key regulatory bodies to help define the industry changes that Calnex’s products will be required to test and measure.

3 Frost and Sullivan, Global 5G Network Infrastructure Growth Opportunities’, 30th Jan 2023

4 Data Centres Around the World: A Quick Look, United States International Trade Commission, May 2021



## Strategy Overview

# Our three-pronged growth strategy

Calnex has a three-pronged growth strategy to capitalise on the structural growth drivers in the telecoms market:



### Continued product innovation to capitalise on build out of mobile network and growth of 5G

- Follow the market demands for higher transmission rates and track new standards to strengthen our product offering.

#### Key developments in FY23

- Followed-through with further enhancements in Paragon-Neo to support the new interface formats for the very high-speed interfaces.
- The O-RAN Alliance works on the evolution of Open RAN (Radio Access Network) standards around the world. Continued to track developments and enhance capability in products to support evaluation of O-RAN recommendations.

See Strategic Report on pages 15 and 16.



### Expansion within the cloud computing sector and other Ethernet market niches

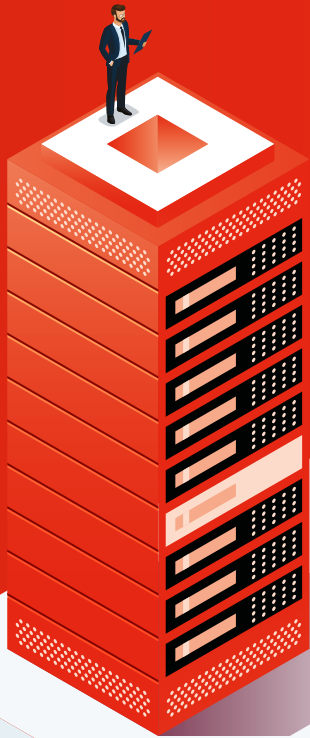
- Target growth applications where strong value can be gained from the deployment of Calnex's products.

#### Key developments in FY23

- Launched the SNE-Ignite and SNE-X platforms to complement the SNE platform. Will utilise the strengths of each platform to target key applications to build our presence in the key markets for Network Emulation.
- Successfully integrated the iTrinegy team acquired through acquisition in April '22. With NE-ONE platform provides a targeted solution for engineering teams developing software applications to be hosted in-house or in cloud services. Through recruitment and re-assignment, Business Development team put in place to drive sales growth in FY24.
- Sentry platform developed to align with the needs of data centre operators to manage time synchronisation released in Q4 FY23, heavily leveraging technology from Sentinel platform. Utilise a new product to strengthen and broaden market engagement in FY24.

See Strategic Report on page 15 and 16.





We have made good progress in executing on our strategy, paving the way for accelerated future growth."

**Tommy Cook**  
CEO



### Target select acquisition and strategic partnership opportunities to add to product portfolio

- Selective acquisition and strategic partnership activity, where complementary products or technologies can be acquired to enhance Calnex's existing portfolio in related or adjacent growth markets.

#### Key developments in FY23

- Acquisition and subsequent integration of iTrinegy. We anticipate FY24 will see the realisation of the potential of the iTrinegy acquisition.
- Expanded ability to search and evaluate target companies with appointment of Strategic Partnership manager.

See Strategic Report on page 15 and 16.



## Our Products

# Test solutions

Calnex provides sophisticated hardware and software test and measurement solutions to its customers across three main application ranges:

### Lab Synchronisation

Calnex's Lab Synchronisation test capabilities are delivered by the Paragon product range, used to test the synchronisation capabilities of telecoms equipment within the development phase.

### Network Synchronisation

Calnex's Sentinel and Sentry product ranges provide the ability to test network synchronisation once telecoms equipment has been deployed, both in the telecom networks and within data centres installations.

### Cloud & IT

Calnex's SNE, SNE-X and SNE-Ignite Network Emulation platforms are used to replicate network behaviour in real-world conditions, enabling the infrastructure testing of Ethernet, cloud and data centre technology & networks.

Calnex's acquisition of iTrinegy in April 2022 added the NE-ONE product to the portfolio. This product will provide Network Emulation testing of software applications and digital transformation testing that utilise the telecoms and cloud computing infrastructure.

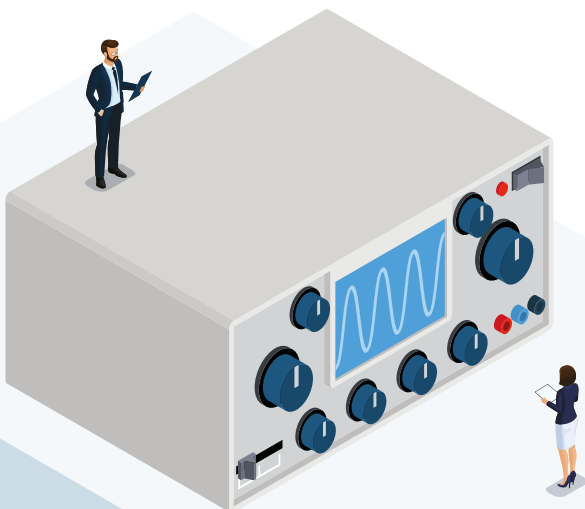


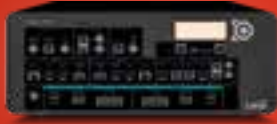
## NE-ONE

Positioned to provide comprehensive Network Emulation for testing of software applications and digital transformation testing.

Hardware platform available to host software product.

Software can be hosted in VMware, AWS and Azure environments.





## Paragon-neo

First to very high accuracy for multiple rate from 100M-to-400G, measuring to sub-billionth of second accuracy.

Positioned as the platform to support all future rates including greater than 400G.



## Paragon-X

First to offer multi-rate to 10G, physical layer and packet timing, and implementation of full system end-to-end emulation for high accuracy time testing.

Future opportunities in emerging applications out-with telecoms.



## Sentinel

First to measure time from the air signal.

Best-in-class at maintaining high-accuracy time in the field.

Designed to meet the testing needs of new 5G networks.



## Sentry

Designed to meet the testing needs of data centres deploying accurate time to all servers.

Provides monitoring of accurate time to all the servers located within a data centre.

High degree of leverage in technology between Sentinel & Sentry, each product structured and optimised to align with the specific form, fit and function needs of its target application.



## SyncSense

Monitoring of time quality across a distributed network, be it in a data centre or a Telecom network.

The system will collate and display an image of the network, highlighting the nodes that appear to have problems. This provides network managers an indication of the quality of sync across for every node across a network in order to identify issues that may exist.



## SNE

Positioned to provide comprehensive Network Emulation for Infrastructure testing.

Supports multi-port/multi-user support up to 100G interfaces.

SNE & SNE-X is PC based with software test core for highly flexible, complex network scenario emulation.

SNE-Ignite also incorporates hardware test core for high capacity and high precision emulation scenarios.

Market leader in port count, multi-user and flexibility.

Software platform to deliver cloud-services based solution.

## Our Business Model

# Our unique position

Calnex operates a lean business model, with a global network of regional distributors and channel partners. Calnex has a highly sophisticated and differentiated product offering, with an in-depth knowledge of future market requirements.



### Market-leading solutions

Calnex's solutions for network synchronisation and emulation enable its customers to validate the performance of the critical infrastructure associated with telecoms networks. This has allowed the Group to establish a position at the forefront of the global test and measurement industry.

Calnex's products are differentiated through their high specifications and the complexity of the product platforms.

### Longstanding customer partnerships

The longevity and depth of Calnex's customer relationships demonstrate its reputation in the industry and trusted partner status with global reach.

### Clear purpose and strategy

Calnex's three-pronged growth strategy provides motivation for staff and attracts investors. The Group's strategy capitalises on the drivers in the telecoms market:

1. Continued product innovation to capitalise on the build out of the mobile network and growth of 5G.
2. Expansion within the cloud computing sector and other Ethernet market niches.
3. Target select acquisition and strategic partnership opportunities to add to product portfolio.

### Engineering expertise

Calnex has developed a team of experts highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets.

### First to market

Calnex holds close relationships with customers, regulatory bodies and leading market participants, meaning it consistently brings new technologies to market first. Together, these also act as a significant barrier to entry to potential competitors.

### Industry know how

Calnex is a young business with an experienced senior leadership team.

The Group's ability to offer a wide range of solutions is attractive to customers and provides a point of differentiation.

Calnex's position and reputation within the industry means it is well placed to make further acquisitions.

## Operational Model

These qualities are supported by a lean business model, with global distribution channels in place and manufacturing outsourced to a high-quality and long-standing local partner:

Maturity of the operational model combined with agile methodology provides scalability, adaptability and creates value for Calnex's customers, colleagues, shareholders and the markets in which we operate.



### Distribution channels

Global reach through network of regional resellers and distributors.

Long-term relationship with Spirent Communications plc, includes US, China and India (together 69% of FY23 total orders). Contract renewed in July 2022 confirming the commitment to the relationship from both parties.

Calnex maintains direct contact and has strong, ongoing relationships with end customers, due to a highly technical sales process.

### Manufacturing capability

Manufacturing outsourced to Kelvinside Electronics since 2007.

Kelvinside Electronics operates from a custom built 40,000ft<sup>2</sup> facility located in Kilsyth, Scotland.

High quality short and medium term sales forecasting information, along with close working relationships, enable optimisation and management of global supply-chain procurement and production schedules.

### Operational excellence

Large company structure, with sophisticated R&D processes.

Successful expansion through product and technology acquisitions.

Proven ability to integrate bolt-on acquisitions who benefit from access to global sales channel and increased R&D structure.

The telecoms industry is a rapidly evolving environment – the migration of mobile to 5G and the emergence of the IoT for example, are driving forces in the continuous development of telecom networks around the world. This requires innovative products and technologies to support the investment in new digital infrastructure. This drives growth in the need for Calnex's test and measurement instrumentation and solutions.

## Our solutions create value:

### Our customers

The test and measurement sector is an integral part of the communications networks in both the telecoms industry and increasingly in the cloud computing industry; as it is typically required at each stage of the development cycle and it enables market participants to develop, manufacture, deploy and maintain the telecom equipment and networks. Calnex helps to ensure test and measurement within these industries can be carried out reliably to prove conformance to the standards required by market participants and regulators.

### Our market

Calnex continues to work closely with customers and the key regulatory bodies to track and monitor the industry changes that Calnex's products will be required to test and measure.

### Our colleagues

Calnex strives to be an employer that people enjoy working for. We provide a supportive and productive work environment and help our employees in taking care of their physical and mental wellbeing, with a focus on each staff member's career path.

### Our shareholders

Calnex's focus is on delivering returns for its shareholders. Strong financials provide firepower for growth across the expanding markets and support dividend payments. Calnex has a clear strategy within its target markets and is profitable and cash generative with a strong revenue profile to help support its objectives.

## Chair's Statement

# Overview

It gives me great pleasure to present my first statement as Chair of Calnex Solutions, following my appointment to the role in August 2022, post the Company's AGM.

### Overview

Upon joining the Board as a Non-Executive Director in January 2022, I found a company with an innovative product offering, highly experienced leadership, an expert and dedicated team, long-standing blue-chip customers, and strong partner relationships. These factors have enabled Calnex to deliver strong profit and revenue growth since IPO, which have in turn provided the means to invest in its people and offering, while maintaining a strong balance sheet.

### A positive performance in FY23

The Group successfully delivered results in line with market expectations. This was driven by the growth in cloud computing and the roll out of 5G along with the introduction of new standards for the telecoms industry, driving demand for the Group's products.

There was an improved performance in H2 as expected and for the year the Group achieved revenue growth of 25% to £27.4m (FY22: £22.0m) and profit before tax increased by 21% to £7.2m (FY22: £6.0m). We closed the year with a strong cash (including short term investments) figure of £19.1m (FY22: £15.4m).

Calnex's relationship with its long-standing partners deepened during the year with key highlights being the renewal of the contract with Spirent, the Company's principal distribution partner, as well as the successful management of supply chain issues with our contract manufacturer,

Kelvinside Electronics. We also made good progress in data centre activities and the integration of iTrinegy has gone to plan.

### ESG

The attitude of Calnex towards caring for its people and the communities around it has always been a key feature of the business. As a business and Board, we are committed to having a positive impact on our society, the environment, and our team.

The Group follows the Quoted Companies Alliance Practical Guide to ESG, which is intended to supplement The Quoted Companies Alliance Corporate Governance Code (the QCA Code), which the Group also follows. The QCA Practical Guide provides pragmatic steps for small and medium sized listed companies to develop how to identify and disclose those ESG issues that are important to them and outlines an approach that is proportionate to the resource availability within smaller companies, whilst also giving stakeholders the relevant information that they need.

Within product development, our focus is increasingly on delivering platform products that enable software upgrades in line with customers' aspirations. Thanks to our dedicated team, their in-depth knowledge, and market insight, our customers enjoy hardware longevity typically between 10 and 15 years, thereby reducing the impact our products have on the environment and providing long-term expert support through cutting-edge upgrades that anticipate customer requirements. Where possible, we look to work locally. Our product packaging is manufactured by a local supplier with a comprehensive environmental policy and our company HQ, and the majority

of our operations are based in serviced premises leased from Oracle in Linlithgow.

In FY22 the Board committed to build a Calnex Corporate Giving Scheme into our Financial Plan equal to 1% of the profits we generate. An employee-led team was created in FY23 to consider proposals from employees for donations or support for groups and events that matter to them. We used 100% of the Calnex Corporate Giving Scheme this year. We have two main initiatives in place to utilise this fund – Calnex Corporate Responsibility Fund where employees can nominate charities, clubs, or organisations for a monetary donation each quarter and our Calnex in the Community scheme where employees are given two days each financial year to volunteer. In FY23 Calnex donated £70,000 to 84 charities and organisations and social events across the globe through our Corporate Giving Scheme.

As a Board, we are also committed to high standards of corporate governance and oversight. The approach we take is set out in detail in the Principal Risks and Uncertainties, s172 and Corporate Governance sections on pages 34 to 51.

As part of our journey to continually improve our performance, our focus remains on ensuring a diverse workforce with a good level of female representation on both our Board and executive management team. The success we have delivered since IPO is a tribute to the workforce's expertise and knowledge. Their energy and professionalism whilst navigating the supply chain challenges has been immense and on behalf of the Board, I would like to thank all our staff across the globe for their hard work.



### Board updates

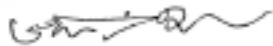
I am delighted to have taken up the mantle as Chair during the period and I have come to know Calnex's culture and structure well in my time so far. We were also pleased to welcome Helen Kelisky to the Board in 2023, who brings with her a wealth of cloud and data centre experience, which has already proven of immense value.

I would also like to take this opportunity to thank George Elliott who retired as Chair at last year's AGM, as well as Ann Budge, who stepped down as Non-Executive Director in February of this year. The importance of both George and Ann cannot be overstated, both of whom having provided significant guidance along the way on Calnex's growth journey.

### Outlook

As described in our Trading Update issued in March 2023, the macro-economic conditions have prompted a more cautious approach to investment decisions by our customer base. While we are seeing signs of a more stable macro environment, trading in the current financial year has continued as anticipated at that time. Customer engagement levels are high, although the timing of orders remains unclear, consistent with wider industry dynamics.

The Board remains confident in the delivery of results for the year in line with the revised market expectations and believes the breadth of product offering, and the market's structural growth drivers, provide Calnex with a considerable long-term opportunity.



**Stephen Davidson**  
Non-Executive Chair  
22 May 2023



The Group delivered record levels of trading in both halves of the year, successfully fulfilling all scheduled orders to finish the year strongly."

**Stephen Davidson**  
Non-Executive Chair





## CEO's Statement and Operational Review

# Sustained progress

We have delivered a strong FY23 financial performance, reporting double digit growth across revenue and profit, in line with market expectations. Improved performance in the second half was driven by the successful conversion of our order book and we have continued to make considerable operational and strategic progress during the period.



I am proud of the way in which the team has been able to deliver these results while dealing with well-documented supply chain challenges. The mitigation strategies in place enabled us to shield our customers from any impact, successfully scheduling all orders aligned to customer needs. We continue to benefit from the experience of our team and from the strength of the relationship with our contract manufacturer, Kelvinside Electronics, in this regard. We are optimistic about an improving picture and that the process improvements we have put in place leave us well-positioned to capitalise on the opportunities available to us.

Further execution of our growth strategy during the year has increased Calnex's market opportunity as we move into adjacent areas of the testing market. Relationships with hyperscalers continue to grow and we are encouraged by the early performance of Sentry, our newly launched Network Synchronisation product. We have also recently initiated discussions with Data Centre and Telecom Network operators for the supply of a Monitoring system for synchronisation quality across their network, SyncSense. Following the full integration of the recently acquired iTrinegy, we now see it as an important contributor to future profit. Following further investment into our team's capabilities during the year, we believe we have the right team in place to continue our journey.

Following three years of revenue and profit growth since becoming a listed business, we are now a considerably larger business (headcount and turn-over), with strong customer relationships across all territories. Although contending with near-term uncertainty and delayed customer spending, we remain a profitable, cash generative, well-managed business, with a diverse customer base in growing markets and strong balance sheet.



### Customer metrics

The number of customers who ordered from us this year increased by 72 to 305 (FY22: 233 customers) and the proportion of orders coming from non-telecoms customers was 34% (FY22: 23%). The step change is primarily driven by sales of NE-ONE products to customers new to Calnex. Over a three-year average basis, our top 10 customers accounted for 47% of orders (FY22: 50%) and 74% of our orders were from repeat customers (FY22: 79%). Again, the impact of NE-ONE new customers accounts for this significant change compared to FY22. Our geographic spread of orders across the regions on a three-year average basis, shows Americas receiving 34%, North Asia receiving 27% and ROW receiving 39%.

### Market backdrop

Many telecoms sector participants, including global equipment manufacturers, have recently reported a general softening of demand for their products and services in the short-term, albeit noting that the long-term structural growth drivers, including the exponential increase in network complexity and the transition to 5G, remain strong.

Importantly, our customers remain committed to the delivery of projects which we know will rely on Calnex's test instrumentation and solutions.

### Product innovation to support the transition to 5G and entry into cloud computing market

Continued product innovation has allowed the Group to execute on its growth strategy to capitalise on the transition to 5G and expand into adjacent areas of the testing market, such as cloud computing and the data centre market.

### Launch of new product to optimise entry into cloud computing market

The need for hyperscale and enterprise companies to drive greater efficiency and performance in their data centre operations continues to drive growth in the testing market and Calnex's relationship with these customers has continued to develop during the year. In H2 we launched a new version of our Network Synchronisation product, Sentry, which heavily leverages the technology in Sentinel, Calnex's Field Sync solution, but with a form, fit and

The Group's performance during the year has been enhanced by the introduction of industry regulation such as the new O-RAN standards that continue to drive the requirement for performance testing, whilst the transition to 5G and growth in cloud computing continue to drive demand from both new and existing customers, across each of our customer categories."

function optimised for the data centre environment. This new format enhances the ability to engage with potential data centre customers by strengthening its usability in the data centre environment. Following the large deal secured in FY22, our focus has remained on building relationships with other hyperscalers and this year we successfully secured seed unit sales into two other hyperscalers. We are now focused on using these early units to build relationships and develop further opportunities.

Engagement with both data centre operators and telecom network operators has identified an emerging opportunity to offer a monitoring system that provides an indication of the quality of synchronisation across the network. Calnex has recently launched its SyncSense product offering to address this need. Calnex's reputation as experts in synchronisation enables us to provide reassurance to network operators that we have the knowledge and insight to collect and interpret the data obtained across the network to identify nodes that are not operating correctly. For telecom operators, poor timing limits the customer connectivity that can be supported. For data centre operators, good synchronisation between servers increases processing bandwidth and reduces the investment required for expansion of their server infrastructure to meet the needs of their customers.

## CEO's Statement and Operational Review continued

### Cloud & IT, Infrastructure Verification (SNE, SNE-X & SNE-Ignite)

Calnex's Network Emulation products, which target customers developing Infrastructure products (e.g. Ethernet switches, routers, SD-WAN equipment), continued to make good progress this year. O-RAN has also impacted positively on this product line. The O-RAN Alliance provides recommendations for equipment deployed in the RAN network. Synchronisation is only one element of the functionality specified. Calnex's SNE products are being utilised to verify performance to other aspects of these recommendations.

This year, the Group expanded its portfolio by releasing a new SNE (network emulation) product, SNE-X, a multi-port, high-performance network emulator designed to drive product/application quality and reduce the cost of testing with rigorous, scalable test capability. In FY24 the Group plans to release a further product, SNE-Ignite, to target applications requiring performance and accuracy only achievable with hardware-based implementation. With the SNE family, Calnex now has a full suite of products capable of addressing the needs of all applications in the target market.

### Cloud & IT, Applications Verification (iTrinegy acquisition)

In April 2022 Calnex acquired iTrinegy Limited, a leading developer of Software Defined Test Networks technology for the software application and digital transformation testing market. NE-ONE hardware and software-based Network Emulation platforms provide organisations, primarily across the technology, financial, gaming and military/government sectors, with the ability to accurately recreate complex, real-world network test environments in which to analyse and verify the performance of applications, before deployment. The acquisition of iTrinegy's NE-ONE Network Emulation

platform has enhanced the Company's position as a leading Synchronisation Verification test vendor, and we believe Calnex is the leading provider of Network Emulation tools for its industry segments.

The integration of the iTrinegy team is progressing as planned, with the focus during the period on building out the team and sales channel, which will continue in FY24.

### Financial performance

Calnex experienced another year of strong trading, achieving results in line with market expectations. We delivered double digit growth across revenue and profits with an improved performance in H2, as expected. The 25% growth in revenue to £27.4m (FY22: £22.0m) is a result of the continued strong demand for telecoms testing equipment across the Group's core markets. Three-year revenue CAGR is 26%, reflecting the solid performance of the business since IPO. Revenues from the Americas region increased 36%, whilst the Rest of the World experienced a 38% uplift. North Asia revenues saw a slight decline of 4% due to the ongoing geopolitical tensions between the US and China. Given the overall growth in revenues, Americas account for 35% of total revenues (FY22: 32%), ROW 41% (FY22: 37%) and North Asia 24% (FY22: 24%).

The Group's adjusted profit before tax grew by 21% to £7.2m (FY22: £6.0m), in line with market expectations, reflecting the uplift in revenues and the Group's on-going investment in the business. This year saw the Group invest in additional business development resources, products, and inventory, such that we are in a stronger position to successfully respond to customer demands. The Group ended the year with a healthy closing cash position, including fixed term deposits, of £19.1m (31 March 2021: £15.4m).

### People

We continue to invest in talent globally, to support and enhance the fantastic work of our team, whose commitment continues to drive the business forward. Such investment in talent, particularly within the R&D division, is part of the Group's on-going growth strategy. We have grown our headcount by 33 staff over the past 12 months, including the iTrinegy acquisition, bringing our total headcount to 155 as at 31 March 2023. We continue to be able to use Calnex's platform as a means to attract talented people and continue to use our overseas sponsor license to hire from outside of the UK in order to strengthen and diversify our teams.

In January 2023, we welcomed Helen Kelisky to the Board as Non-Executive Director. Helen brings over 30 years of technology sales leadership experience and a track record of driving top line growth, leading national and international businesses. Her experience across the cloud and data centre world is already proving to be of immense value to Calnex as we exploit the growth in the testing market, with the need for greater efficiency and performance in data centre operations.

Following nine years on the Board, George Elliott retired as Chair at last year's AGM. George was a significant source of support to me and the business through our subsequent growth and journey onto the public markets. Also, following 13 years on the Board, Ann Budge stepped down as Non-Executive Director in February 2023. Ann was an early-stage investor in Calnex and was pivotal in introducing the Discovery Investment Fund syndicate as seed investors when the Group raised capital in 2007. I would like to take this opportunity to thank both George and Ann for the valuable roles they played in Calnex's growth journey, helping to establish a solid platform to support the Group's financial and strategic ambitions.

Calnex is a people first business where we help and encourage each other, supporting the business and our colleagues in building on our successful achievements. During 2022, we introduced a range of programmes to support the development of our employees including the Leadership Development, Power Skills and Psychological Safety programmes, to ensure they can thrive in a safe and supportive environment. I am pleased to report that in the last 12 months, the Group's learning and development activities have led to 24 promotions and five cross-departmental moves.

During the year, we also worked closely with the UK Electronics Skill Foundation, supporting the future talent of Engineering in providing student placements and supporting STEM education and development.

Our continued success at Calnex, together with the diversity of our employees, enables us to make meaningful contributions all over the world. Guided and driven by what is important to our teams, we are committed to use the resources we have at our disposal and our platform to support events, charities, and groups to demonstrate our commitment to Environmental, Social and Governance responsibilities.

### Outlook

FY23 was another year of solid progress where we executed on our strategy, increasing our addressable market, whilst successfully navigating the supply chain challenges, achieving revenue and profit growth, in line with market expectations.

In our Trading Update issued in March 2023, we described how some customers had begun to take a more cautious approach to investment decisions in response to the macro-economic conditions, prompting a revision in market expectations for FY24. Trading in the first few months

of FY24 has continued as anticipated, and the Board remains confident in delivering results for the year in line with the revised market expectations.

Customer engagement levels remain high, and we have been encouraged to see the early signs of a more stable macro environment. Whilst customer budgets continue to be restricted in the near term, we have seen our mid-term order funnel strengthen during Q1 FY24, although the timing of conversion of these opportunities into orders remains unclear, which is as expected and consistent with wider industry dynamics.

We are confident the market's structural growth drivers will continue to drive long-term growth opportunities for Calnex. These include the need to build out new mobile networks to support the transition to 5G, and ongoing data centre investment to support the demand for cloud computing coupled with the need to be more energy efficient.

The breadth of our customer base across multiple regions, expanding product portfolio and strong balance sheet, mean we look to the future with continued confidence.



**Tommy Cook**  
Chief Executive Officer  
22 May 2023

## ESG

# A meaningful impact

Calnex is a “people first” company built on trust and respect. Not only for each other but also for the environment and for the local communities of our employees across the globe, where we do our best to make a meaningful impact.



Calnex is an innovative and forward-thinking business where our employees are encouraged to share their views, contribute to decision making, challenge each other and improve our processes to make a positive contribution to business success. This is reflected in the approach we take to delivering leading-edge test and measurement solutions for 5G networking and wireless technologies.

Our focus is increasingly on delivering platform products that enable software upgrades in line with customers' aspirations. We can't control how our customers use our products, but we can influence how they benefit from additional functionality without the need for additional hardware. Thanks to the skills of our team, our in-depth knowledge, and market insight, many of our customers enjoy hardware longevity of between 10 and 15 years.

Our software-first approach significantly reduces the impact our products have on the environment by building in best-in-class longevity and providing long-term expert support through cutting-edge upgrades that anticipate customer requirements. Although already a low environmental impact business, the senior management team and our staff are keen to do more to tackle the environmental challenges facing the planet and we are working towards becoming an ISO14001 certified business by the end of 2023. Our recently established employee-led environmental, social & charity team have also had a very successful FY23.

At the end of FY22, the Board committed to build a **Calnex Corporate Giving Scheme** into future Financial Plans equal to 1% of the profits we generate. An employee-led team (with senior management sponsorship) was created in FY23 to consider proposals from employees for donations or support for groups and/or events that matter to them. The Calnex senior management team want to support groups local to our employees and offices and empower our employees to make a difference in their community by directing the Company to support activities/groups that they truly care about.

We also encourage employees to donate their time to make meaningful contributions. Group activities such as planting trees, re-planting local flower beds and helping out at food banks are beneficial in so many ways. Beyond the obvious benefit of the primary task and the psychological benefit from making a positive contribution, we recognise how significantly such activities boost team spirit and engender pride in being associated with a company that helps our employees make a meaningful, local difference.

We also work closely with the UK Electronics Skill Foundation (UKESF), supporting the future talent of Engineering in providing student placements and supporting STEM education and development.



We are pleased to report that we used **100% of the Calnex Corporate Giving Scheme this year**. We have two main initiatives in place to utilise this fund – the **Calnex Corporate Responsibility Fund** where employees can nominate charities, clubs or organisations for a monetary donation each quarter and our **Calnex in the Community scheme** where employees are given two days each financial year to volunteer within their local community during working hours, without the need to book annual leave.

This financial year **Calnex has donated £70,000 to 84 charities and organisations and social events across the globe** through our Corporate Giving Scheme. Key charitable initiatives included:

- Donating 120 sleeping bags to a homeless charity in Belfast, as well as supplying 120 meals across our worldwide regions to those in need during the festive period;
- The Calnex September250 challenge where we encouraged our employees across the world to either walk 250,000 steps, cycle 250 miles, or take part in 25 exercises during the month of September to help support four worldwide charities – Mind, Sea Shepherd, Save the Children and National Autistic Society;
- Eighty employees from every region (UK, US, North Asia, India) accepted our challenge, which resulted in Calnex donating over £16,000 from our Corporate Responsibility Fund to split between these charities. During September our employees walked 13,877,757 steps, cycled 2,752 miles and took part in 230 exercise classes which not only raised a lot of money for charity but helped keep our employees and their families active;
- The Christmas Tree Gift Tag Appeal in our Linlithgow and Belfast office. In each office we decided to put up our Christmas trees early and attach gift tags which gave suggestions on toys to purchase for disadvantaged children. Our employees did an amazing job and brought in more than 100 gifts which were then donated to Cash for Kids Northern Ireland and River Kids in Scotland;
- The return of our Annual Christmas Charity Raffle in aid of HopScotch, which provide a much-needed seaside holiday for disadvantaged children in the UK;
- 24 large bug hotels were donated to nurseries and primary schools local to our employees across the UK, allowing the schools to educate and base projects around the wildlife that inhabit the hotels;
- All 3 UK offices took part in our charity bake sale in aid of Fare Share, who redistribute good food which would otherwise go to waste to almost 11,000 frontline charities nationwide. With over 30 home baked goods brought in by our employees across all 3 sites and with Calnex matching the amount raised through employee donations, we raised £1,795 for Fare Share; and
- As well as these activities organised by Calnex, 62 out of the 84 donations to clubs, charities and organisations were suggested by employees across the globe. A few key employee donations were:



## ESG continued

- £4,000 to SEAL Dunfermline, Scotland, who support the health and wellbeing of young people aged between 8 – 16 who are referred through social work and schools. As SEAL recently had their funding reduced due to council cutbacks, this money allowed them to continue their work;
- £1,000 to Stevenage Scouts Group, England, which was used to help enable disadvantaged children to attend a trip to Normandy;
- £1,000 to Operation 143, USA, who support over 30 schools providing disadvantaged children with backpacks containing easy to prepare food to feed them over the weekend; and
- £2,000 to Linlithgow Rose Community Football Club under 10s, Scotland. The money helped purchase new kit for all the young players.
- Five Sister Zoo: 17 employees from our HQ office in Linlithgow volunteered with the zoo to paint their large wooden ship play park and tidy up their Japanese inspired garden by clearing out leaves and laying new gravel;
- Akshaya Patra: our India-based team of 4 became our first overseas volunteering activity. The team helped package up and deliver lunchtime meals to disadvantaged schools in the area;
- Muiravonside Country Park: 20 employees from our HQ office in Linlithgow volunteered in the county park to help create a wildflower field as well as placing, filling and planting up their new planters, moving 8 tonnes of soil and stone in the process;
- Shepreth Wildlife Park: 10 employees from our Stevenage office in England volunteered to help scarify the large grass mound where the prairie dogs lived, removing all the moss to enable their resident donkey to move back home; and
- Ulster Wildlife Bog Meadows: 4 employees from our Belfast office volunteered to help plant the last of their one million trees for the year.

This financial year **Calnex has organised 7 Calnex in the Community days for our employees across Northern Ireland, England, Scotland and India**, including:

- Fife Coastal Path Clear-Up: 22 employees from our HQ office in Linlithgow helped collect rubbish along Fife Coastal Path;
- Assisi Animal Sanctuary: 8 employees from our Belfast office volunteered with the sanctuary, clearing out and reorganising their donations container and giving the walls a fresh lick of paint;





**Products**

Our products are innovative, leading-edge test and measurement solutions for designers and operators of the equipment and infrastructure that enables 5G networking and wireless technologies. 5G technologies provide enhanced mobile broadband, mission critical communications and the Internet of Things, all of which have a significant global impact across many aspects of society and industry.

Our approach to product development is as follows:

- We develop hardware platforms that can be enhanced with downloadable software upgrades in line with customers’ everchanging needs. For example, both our Paragon-X and Sentinel platforms, introduced in 2010, and 2013 respectively, are still supported by the Company;
- Our products are built into test racks where they remain for as long as the customers’ products are supported. Customers expect their products, once deployed in networks, to be utilised for 10 – 15 years;
- This longevity feeds back through the supply chain as our customers now expect that same longevity from test equipment vendors;
- Our products are manufactured by a highly skilled contract manufacturer, Kelvinside Electronics, whose close proximity allows for excellent two-way support and communication regarding the complex technical challenges of building and testing our products; and
- Our bespoke product packaging is manufactured by a local supplier with a comprehensive environmental policy including a focus to reduce, reuse and recycle all packaging materials wherever possible.



**Environment**

Both Calnex’s operational processes and products have a low environmental impact.

The majority of our staff are office-based and have the ability to work part of the week from home where their duties allow, performing their operations using computer and internet-based services. Our contract manufacturer, Kelvinside Electronics, is ISO14001 (Environmental Management Systems) certified. Our products sales and customer support services are managed by locally-based partners together with Calnex support staff, which greatly minimises global travel.

Our company HQ and the majority of our operations are based in serviced premises leased from Oracle in Linlithgow. Calnex uses the waste recycling services provided by Oracle. Oracle have also invested in efficient lighting and air conditioning systems which minimise energy consumption on site.

The small amount of electrical component and circuit board waste we generate is disposed of in accordance with the WEEE regulations.

Our products are designed as platforms enabling our customers to take advantage of future software upgrades and hardware longevity.

Despite being a low environmental impact business, a project is currently underway to gain ISO14001 certification. The ISO14001 standard defines a framework to formally manage the environmental impact of our business operations and products.



## ESG continued



As well as the charitable giving activities mentioned above, other environmental initiatives include:

- We have initiated a Product Packaging Project to measure and improve the recyclability of our product packaging. We used a defined measurement method to provide consistency in measurement across all our product lines. All material included in the packaging that we deliver to customers is identified and weighed and assessed for its recyclability. This exercise has helped to allocate an internal environmental score to each product in our portfolio;
- We are currently conducting a product design improvement exercise to assess if we can reduce or change materials included in our hardware designs to take environmental impact into account, whilst also adding appropriate recycling labelling information to customers. Every improvement identified is reviewed to ensure changes do not have a detrimental impact on quality of the product, protection of our intellectual property or the customer experience; and
- We have initiated an energy usage and business travel data collation project which will allow us to have visibility on our Scope 1 and 2 emissions for future reporting requirements.



### People

Calnex is a people first company built on trust and respect. We are transparent, sharing in the successes, the challenges and the Group's ambitions moving forward. We help and encourage each other, supporting the business and our colleagues in building on an already successful company. Calnex also enjoys and thrives on a diverse workforce where inclusion is key to building high performing, engaged and successful teams.

Respectful of each other, we consider how our actions, ideas and approaches impact others.

We work as one team.

Our strong values, as reflected in our Investors in People Gold Award, are promoted through a variety of employee engagement programmes:

- Robust **Recruitment Process** that only ever hires top talent and employees who value and support a positive working culture, (each potential employee has a 'fit interview' as well as skills and experience assessments).
- Supportive **Induction Training Programme** including a comprehensive internally delivered training programme that supports the integration of new employees.
- **Mentoring Programme** to support the development of staff and career progression.
- Employee-built **Annual Review Programme** that recognises personal achievements and supports development and career progression.
- **Training and Development Opportunities** to further develop skillsets and/or secure educational qualifications.
- Group-wide **Compliance Training** to remain legally compliant worldwide.
- A benchmarked **Benefits Package** that strongly supports the financial, physical and mental wellbeing of our people including,

amongst other things, profit share for staff, an employee share incentive plan, a flexible/ hybrid working model, an employee wellbeing activity programme (including fitness classes, an onsite gym, and free use of facilities at the local sports and recreation centre, a healthcare scheme available to all staff and income protection and life assurance policies.

- **Quality Management System** that encourages inclusivity and drives process improvement.
- Regular **Culture sessions** chaired by Calnex's CEO to gather feedback on the Company's culture, practices and processes, encouraging employees to provide their input into organisational development.
- Annual **Employee Surveys** to enable two-way dialogue on topics such as company strategy, career progression opportunities and other current topics affecting the working lives and wellbeing of our employees.

In 2022, partnering with Connect Three, we have introduced Leadership Development (LDP) and Power Skills programmes. Our LDP is a mandatory programme for managers which supports them in leading high performing teams, developing capability, effective communication and leading effective change. As the business continues to grow and change, self-awareness and psychological safety training has also become a key element of this programme as we strive to retain the positive, inclusive and collaborative culture that has contributed to our success to date. Our employee designed Power Skills programme provides all our employees with regular access to a weekly programme of skills sessions designed to engender confidence, understanding and awareness of a wide variety of skills ranging from Understanding Self and Others, Resilience and Change to Super Powering Communication and Influencing and Developing a Global Mindset. The introduction of our new Psychological Safety programme also nurtures an inclusive, supportive and safe environment for our employees to thrive in, providing a work environment where we support each other through change and growth ensuring our positive, people-focused culture remains at the heart of everything we do.



In the last 12 months, our learning and development activities have led to 24 promotions and 5 cross-departmental moves. Structural development within the organization due to rapid growth over the last three years has created openings for 16 new management positions. Our focus on internal skills and leadership development has meant that we have been able to fill 60% of these positions internally, which is a major positive for both the business and the careers of those involved.

To actively support our employees' mental wellbeing, we have also partnered with David Beeney at Breaking the Silence to deliver interactive manager and employee workshops on managing our own mental health and supporting our colleagues in the workplace. Employees also have direct access to David for more personal support.

Calnex has also engaged a Chartered Financial Planner to provide financial wellbeing workshops for all employees and 1:1 free financial support to our UK team.

Our continued success at Calnex, together with the diversity of our employees, enables us to make meaningful contributions all over the world. Guided and driven by what is important to our teams, we are committed to use the resources we have at our disposal to support events, charities and groups to demonstrate our commitment to Environmental, Social and Governance responsibilities.

**Tommy Cook**  
Chief Executive Officer  
22 May 2023

## Financial Review

# Chief Financial Officer's statement



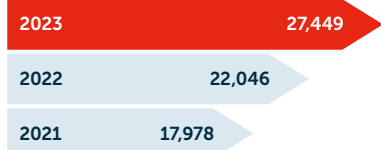
The Group delivered a solid financial performance in the year to 31 March 2023, with growth in revenue, underlying EBITDA, profit before tax and cash in the year.”

**Ashleigh Greenan**  
Chief Financial Officer

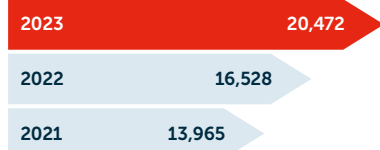


## Financial KPIs: three year trends

Revenue (£'000)

**27,449**

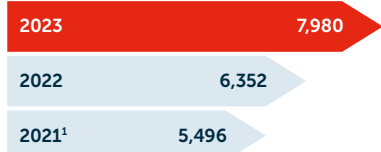
Gross profit (£'000)

**20,472**

Gross margin %

**75%**

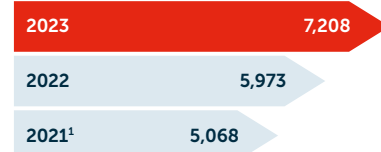
Underlying EBITDA (£'000)

**7,980**

Underlying EBITDA %

**29%**

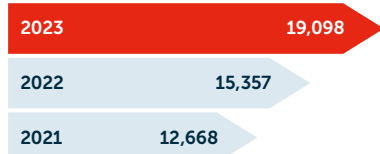
Adjusted profit before tax (£'000)

**7,208**

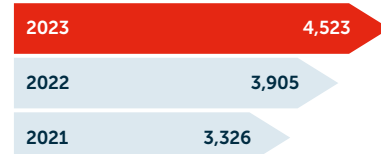
Adjusted Profit before tax %

**26%**

Closing cash and fixed term deposits (£'000)

**19,098**

Investment in R&amp;D (£'000)

**4,523**

Adjusted basic EPS (pence)

**6.75**

Adjusted diluted EPS (pence)

**6.42**

1 Adjusted in FY21 to exclude IPO costs, IPO related share-based payments and the tax effect of these adjustments.

## Financial Review continued

### Financial KPIs

£000	FY23	FY22
Revenue	<b>27,449</b>	22,046
Gross Profit	<b>20,472</b>	16,528
Gross Margin	<b>75%</b>	75%
Underlying EBITDA <sup>2</sup>	<b>7,980</b>	6,351
Underlying EBITDA %	<b>29%</b>	29%
Profit before tax	<b>7,208</b>	5,973
Profit before tax %	<b>26%</b>	27%
Closing cash and fixed term deposits <sup>3</sup>	<b>19,098</b>	15,357
Capitalised R&D	<b>4,523</b>	3,905
Basic EPS (pence)	<b>6.75</b>	5.19
Diluted EPS (pence)	<b>6.42</b>	5.00

2 Refer to note 33 for explanation of the alternative performance measures calculations. A full reconciliation between Underlying EBITDA and the statutory measures is also shown below.

3 The Group takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment and shown separately on the balance sheet.



**Reconciliation of statutory figures to alternative performance measures – Income Statement**

	FY23 £000	FY22 £000
<b>Revenue</b>	<b>27,449</b>	22,046
Cost of sales	<b>(6,977)</b>	(5,518)
<b>Gross Profit</b>	<b>20,472</b>	16,528
Other income	<b>751</b>	648
Administrative expenses (excluding depreciation & amortisation)	<b>(9,928)</b>	(7,917)
<b>EBITDA</b>	<b>11,295</b>	9,259
Amortisation of development costs	<b>(3,315)</b>	(2,908)
<b>Underlying EBITDA</b>	<b>7,980</b>	6,351
Other depreciation & amortisation	<b>(746)</b>	(358)
<b>Operating Profit</b>	<b>7,234</b>	5,993
Finance costs	<b>(26)</b>	(20)
<b>Profit before tax</b>	<b>7,208</b>	5,973
Tax	<b>(1,297)</b>	(1,433)
<b>Profit for the year</b>	<b>5,911</b>	4,540

**Revenue**

Revenues in the year increased 25% to £27.4m (FY22: £22.0m), with growth across all of the major product lines compared to the prior year. Revenues from the Americas and Rest of World regions increased 36% and 38% respectively. North Asia revenues experienced a slight 4% decline on the prior year due in part to the ongoing geopolitical tensions between the US and China. Americas accounted for 35% of total revenues (FY22: 32%), ROW 41% (FY22: 37%) and North Asia 24% (FY22: 31%) in the year.



## Financial Review continued

### Revenue model

Calnex generates revenues through the sale of bundled hardware and software, alongside the provision of software support and extended warranty programmes.

The Group's core sales model is bundled hardware and software. Sales pricing is dependent on the product type and the complexity of the software configuration built into the product package. Calnex also sells stand-alone software upgrades under licence.

Each of Calnex's units comes with a standard warranty period including maintenance and software upgrade cover in the event of any software upgrades being released for the options purchased. Calnex also sells software support programmes which provide customers with access to future software upgrades which are not included as part of the standard warranty. The Group also offers extended warranty programmes to cover repairs falling outside of the standard warranty period.

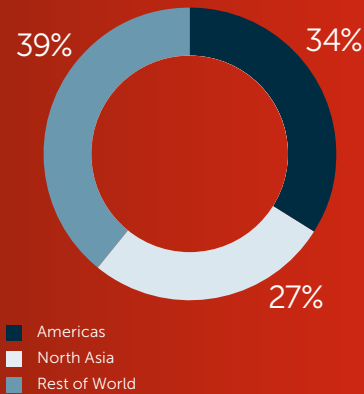
Bundled hardware and software revenues are recognised when delivered to the customer, with stand-alone software revenues recognised in line with the licence period. Revenues from software support and extended warranty programmes are typically recognised on a straight-line basis over the term of the contract.

Many of the products and services developed and deployed by Calnex's customers are interlinked and need to be tested independently, such as the individual components which are then built into the equipment used in telecoms networks. Calnex's test products can be used by a combination of equipment vendors, component manufacturers and network operators, to carry out testing during a new product development cycle. A customer can choose to use Calnex's products in the knowledge that a more consistent result may be obtained if a Calnex test solution had already been used on a particular product.



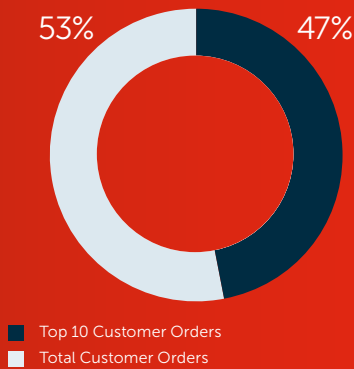
## Sources of Revenue

**Geographical split (orders)**  
(3 year order average)



The Group’s customers are located across the world. Our global customer base and distributor network enables the Group to spread risk across our three key regions: the Americas, North Asia and Rest of the World (ROW). On a three-year average basis, the split of orders across the three key regions was 39% for ROW (FY22: 35%), 34% for Americas (FY22: 35%) and 27% (FY22: 30%) for North Asia. North Asia experienced a decrease in the period reflecting the ongoing US-China geopolitical tensions.

**Top 10 customer orders**  
(3 year order average)

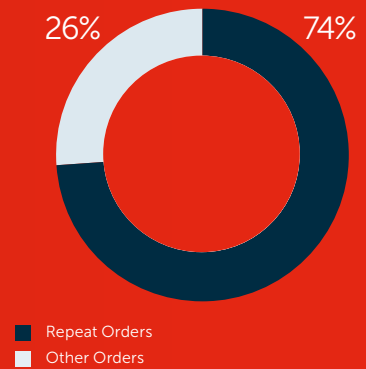


In FY23, Calnex received orders from 305 customers, an increase of 72 on 233 customers in FY22.

The Group’s top ten customers in FY23 accounted for 39% of total orders (FY22: 53%) and 47% of total orders on average over the last three years (FY22: 50%). The step change in percentage in the year is primarily driven by sales of NE-ONE products to customers new to Calnex.

In FY23, no underlying customer accounted for more than 8% of Calnex’s total orders.

**Repeat customers**  
(3 year order average)



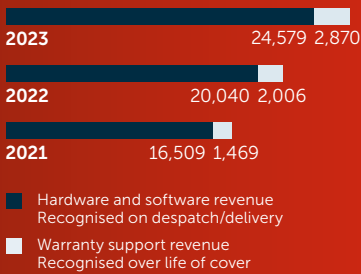
The average length of customer relationship across the top ten customers in FY23 is 10 years (FY22: 10 years), demonstrating our high levels of repeat demand from these customers. In addition, the Group typically experiences a high level of repeat business from its total customer base. In FY23, using a three year order average, 74% of orders were generated from existing customers (FY22: 79%). The impact of NE-ONE new customers accounts for this change compared to FY22.

During the last five years, 230 customers have placed repeat orders with Calnex (FY22: 199).

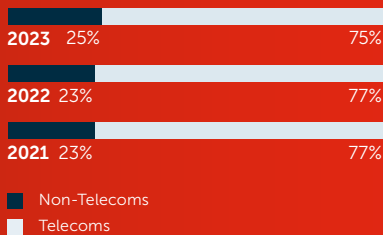
## Financial Review continued

### Sources of Revenue

Revenue streams (£'000)



Telecoms v non-telecoms customers (% of orders)  
(3 year order average)



In FY23, 90% (FY22: 91%) of the Group's revenues were generated from the sale of bundled hardware and software products, with 10% (FY22: 9%) from software support and extended warranty programmes.

Calnex's sales are predominantly derived from telecoms customers where the end-application is a telecoms (fixed and mobile) network. Non-telecoms customers include hyperscale/data centres and enterprise customers. On a three year average basis, and excluding NE-ONE orders (as these are a new set of customers in FY23 only), these non-telecoms customers represented 25% in FY23 (FY22: 23%).

Including NE-ONE in FY23, the three year average percentage of non-telecoms customers represents 26% in FY23 (FY22: 23%).

As telecoms networks evolve, we are finding a number of companies whose primary business is hyperscale/ datacentres and IT are also moving into the telecoms space. We classify sales to these non-telecoms companies for use in telecoms applications as telecoms sales for the purposes of this analysis.

**Gross Profit**

Gross profit increased by 24% to £20.5m (FY22: £16.5m) reflecting the solid trading performance. Gross margin, which is calculated after discounts to channel partners are applied, is in line with the prior year at 75% (FY22: 75%).

**Underlying EBITDA**

Underlying EBITDA, which includes R&D amortisation, increased by 26% to £8.0m in the year (FY22: £6.4m), in line with market expectations, as a result of the strong trading performance. Administrative expenses (excluding depreciation & amortisation) were £10.0m in FY23 (FY22: £7.9m). This increase relates predominantly to the planned investment in the management, sales and support teams across the business in line with the Group's growth strategy, increases in travel costs as COVID-19 restrictions have been lifted across the majority of our regions, increases in US dollar based costs for our overseas sales teams as a result of the strengthening of USD over GBP and overheads relating to the Stevenage site after the acquisition of iTrinegy. Administration costs also include £0.2m of non-recurring acquisition related deal costs and £0.1m of a charge in relation to the contingent consideration accounting in relation to the iTrinegy acquisition.

Amortisation of R&D costs increased by £0.4m to £3.3m (FY22: £2.9m) due to increased R&D investment in recent years to support the growth in revenues.

Underlying EBITDA margin was 29% in FY23, in line with the prior year.

**Profit before tax**

Profit before tax increased by 21% in the year to £7.2m (FY22: £6.0m) driven by the growth in revenue performance. Profit before tax margin was 26% in FY23 compared to 27% in FY22. This slight change in profit margin is driven by the increase in other depreciation and amortisation costs as an additional £0.3m amortisation of acquired intangible assets was charged to the income statement in the Period in relation to the iTrinegy acquisition.

**Tax**

The tax charge in the year was £1.4m (FY22: £1.3m), representing an effective tax rate of 18% (FY22: 24%).

The weighted average applicable tax rate for FY23 was 19%. The difference between the applicable rate of tax and the effective rate is largely due to the following:

- Availability of enhanced 130% SME R&D deduction (decreasing the effective rate by 2.2%);
- Deferred tax charged directly to equity (decreasing the effective rate by 2.2%);
- Recognition of the change in tax rate to 25% on certain deferred tax assets and liabilities as they are expected to reverse after 1 April 2023 (increasing the effective rate by 0.7%);
- Overseas taxes (increasing the effective rate by 2.0%);
- Other differences, such as prior year adjustments and disallowable expenses (increasing the effective rate by 0.7%).

The weighted average applicable tax rate for FY22 was 19%. The difference between the applicable rate of tax and the effective rate of 24% was largely due to the following:

- Recognition of the change in tax rate to 25% on certain deferred tax assets and liabilities as they are expected to reverse after 1 April 2023 (increasing the effective rate by 5.9%);
- Availability of R&D SME enhanced deduction (decreasing effective rate by 0.3%);
- Impact of the super deduction in relation to fixed asset additions (decreasing the effective rate by 0.3%); and
- Other differences, such as prior year adjustments, disallowable expenses and overseas tax (decreasing effective rate by 0.3%).

The 2021 budget proposal increases the corporation tax rate to 25% from 1 April 2023. This was substantively enacted in the Finance Act 2021 on 24 May 2021.

## Financial Review continued

### Cashflow summary

	FY23 £000	FY22 £000
<b>Net cash from operating activities</b>	<b>11,111</b>	7,350
Investing activities – intangible and property, plant and equipment	<b>(4,704)</b>	(4,213)
Dividends paid	<b>(761)</b>	(245)
Other financing and investing activities	<b>358</b>	(203)
<b>Increase in cash before acquisitions and transfers to fixed term investments</b>	<b>6,004</b>	2,689
Purchase of subsidiary: net of cash acquired	<b>(2,263)</b>	–
Fixed term investment: fixed term deposit	<b>(15)</b>	(1,500)
<b>Increase in cash per consolidated cashflow statement</b>	<b>3,726</b>	1,189

### Earnings per share

Basic earnings per share was 6.75 pence in the Period (FY22: 5.19 pence) and diluted earnings per share was 6.42 pence (FY22: 5.00 pence), with the increases in both metrics reflecting the strong performance in the year.

### iTrinegy acquisition

The acquisition of 100% of the issued share capital of iTrinegy Ltd (together with its wholly owned subsidiary iTrinegy Inc.) completed on 12 April 2022 on a cash free, debt free basis, for an initial cash consideration of £2.5m, fully funded from the Group's free cash. An additional £0.5m was paid to the vendors in exchange for them leaving all available cash (£0.7m at acquisition date) within the acquired business. The net cash effect of the transaction was £2.3m. A detailed summary of the transaction is set out in note 13 to the financial statements.

Up to a further £1m is potentially payable to the vendors subject to the achievement of revenue growth targets from the NE-ONE product line in the year ended 31 March 2024. This "Earn-Out Payment" would be paid as a combination of cash and new shares issued in Calnex Solutions plc.

The Earn-Out Payment in relation to those iTrinegy vendors who have remained as employees of the new Group has been treated as remuneration, with the fair value expensed to the income statement (using current forecasts, the Earn Out Payment is assumed to be paid out at 50% of the maximum). This results in a charge of £0.3m related to post acquisition service, and this will be charged to the Income Statement over the vesting period. In the current year, £0.1m has been charged to administrative expenses within the Income Statement.

£1.3m of a fair value adjustment has been calculated as valuation of the intellectual property associated with the acquired technology, and customer relationships (offset by a £0.3m deferred tax liability recognised in relation to the fair value uplift on the intangibles balance). The goodwill balance of £2.0m represents an accelerated R&D development timeline, cost and sales channel synergies expected from combination, as well as intangible assets not qualifying for separate recognition, such as workforce in place.

£0.2m of acquisition related expenses for legal and professional fees, as well as £0.3m amortisation of acquired intangible assets have also been charged to the income statement in the year.

### Cashflows

The Group generated cash before acquisitions of £6.0m in FY23 (FY22: £2.7m), reflecting the solid trading performance and working capital movements in the year.

Net cash from operating activities was £11.1m in the year (FY22: £7.4m). Working capital movements represented a cash outflow of £0.4m (FY22: £1.5m), predominately as a result of the timing and volume of shipping and invoicing to customers.

Cash used in investing activities is principally cash spent on R&D activities which is capitalised and amortised over five years. Investment in R&D in the year was £4.5m (FY22: £3.9m), reflecting the planned growth in the R&D team as projects resource demands increased.

Cash spend on financing activities in the year was £0.6m (FY22: £0.4m), largely representing dividends paid in the year of £0.8m (FY22: 0.3m), which included the final dividend for FY22 of 0.56p per share, approved at the Company's AGM and paid on 30 August 2022, and the interim dividend for FY23 of 0.31 pence per share, paid on 16 December 2022. This was offset by £0.4m of cash received for the final tranche of the Scottish Enterprise government grant, which came to the end of its term in January 2023. The remainder of the cash spend on financing activities reflects payment of lease obligations. The Group places surplus cash balances not required for working capital into notice and fixed term deposit accounts. Under IFRS, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment. This is shown separately on the balance sheet and is accounted for as a cash outflow within investing activities in the consolidated cashflow statement for the year ended 31 March 2022. It is added back in the non-statutory cash flow reconciliation above as we regard this as cash generated and owned by the Group in the year.

There is currently no debt on the balance sheet, leading to no borrowings related cashflows in the current or prior periods. Closing cash, including fixed term deposits, at 31 March 2023 was £19.1m (31 March 2022: £15.4m).

#### **Dividend**

The directors are proposing a final dividend with respect to the financial year ended 31 March 2023 of 0.62p per share. The final dividend will be proposed for approval at the Annual General Meeting in August 2023 and, if approved, will be paid on 30 August 2023 to all shareholders on the register as at close of business on 28 July 2023, the record date. The ex-dividend date will be 27 July 2023.



**Ashleigh Greenan**  
Chief Financial Officer  
22 May 2023

## Principal Risks and Uncertainties

# Principal risks and uncertainties

The Board has overall responsibility for the Group's risk management processes and internal control procedures. The Board provides oversight and has established controls designed to help the Group meet its business objectives by appropriately managing the principal risks and uncertainties that could have a material impact on the Group's performance.

The Board regularly assesses the Group's exposure to risk and seeks to ensure that risks are mitigated wherever possible. Risk assessments are also undertaken by the Board whenever there is a potential material change to the principal risks and uncertainties.

The Audit Committee has responsibility for reviewing the Group's internal controls and risk management systems for effectiveness. It oversees and reviews the Group's executive management team's internal control and risk management processes throughout the year.

Day-to-day risk management is the responsibility of the Group's executive management team and the senior managers within the business. Any potential changes to risk are reviewed regularly during executive management meetings.

The Board maintains a risk register for all principal activities of the Group. The risk register details the potential risk likelihood, mitigating factors, mitigated level impact and action owner. The executive management team meet regularly and consider new risks and opportunities presented to the Group, making recommendations to the CEO which are then fed back to the Audit Committee and Board if significant. Employees are also encouraged to report any new risks through the Group's internal reporting procedures.

The Board sets out below the principal risks and uncertainties that the directors consider could have a material impact on the business. These risks are monitored on a continuing basis. The Board recognises that the nature and scope of risks can change and that there may be other unknown risks to which the Group is exposed, or which may become material in the future.

A bottom-up financial planning process is conducted once a year for review and approval by the Board. The Group's results, compared with the annual financial plan (and any relevant reforecasts), are reported to the Board on a monthly basis.

The Group maintains appropriate insurance cover in respect of actions taken against the directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed by the Board on a periodic basis, after detailed specialist advice from the Group's insurance brokers.

The Group has in place documented authority levels for approving purchase orders, invoices and all bank transactions, with any expenditure in excess of predefined levels requiring approval from the executive directors.

The Group is focused on meeting the highest levels of customer satisfaction and has an ISO9001 certified Quality Management System in place. Quality procedures for the development of products, services and maintenance support are documented and reviewed frequently.

Given the size of the Group, the Board has concluded it is not appropriate to establish a separate, independent internal audit function but will keep this under review.

Details of financial risks are outlined in note 24 to the financial statements. Refer to pages 97 to 100 for more details.





**Movement Key:**

↑ Increased ↓ Decreased ↔ Unchanged

Risk	Impact	Mitigation	Movement since prior year
<p><b>MANUFACTURING AND RELATIONSHIP WITH SINGLE MANUFACTURER</b></p>	<p>The Group outsources the manufacturing of a high percentage of its products to a single contract manufacturer, Kelvinside Electronics. Kelvinside Electronics procures and stocks all components (both electronic and mechanical parts) and manufactures the printed circuit assemblies for Calnex’s products. The Group is therefore highly reliant on Kelvinside Electronics being able to manufacture Calnex’s products within agreed time-scales, including the sourcing of unique parts, in line with agreed specifications. In the event that Kelvinside Electronics is unable to meet product orders or that products manufactured by Kelvinside Electronics are found not to meet agreed specifications or are faulty, there could be a significant impact on Calnex’s ability to fulfil customer orders.</p>	<p>The Group’s executive management team monitors Kelvinside Electronics’ disaster recovery plans and the availability of alternative UK-based contract manufacturers with comparable capability and is satisfied that in the unlikely event of a manufacturing or other issue affecting Kelvinside Electronics, the Group should be able to manage the situation until the outage was resolved or production has been moved to an alternative supplier (including the sourcing of replacement components in the event it was not possible to transfer the stock held by Kelvinside Electronics).</p> <p>The Group’s close working relationship and information sharing process with Kelvinside Electronics includes regular communication and sharing of rolling forecasting and stock level data. This process allows for early warning of any potential delay concerns from end suppliers and prompts discussion around specific procurement arrangements on certain parts. The business’ management team regularly reviews alternative parts supply.</p>	<p>↔</p>

## Principal Risks and Uncertainties continued

Risk	Impact	Mitigation	Movement since prior year
<b>SUPPLY OF ELECTRONIC COMPONENTS</b>	A shortage of electronic components and resulting extended lead times can affect all sectors utilising such parts. Procurement of parts has remained a challenge through FY23.	<p>The Group has worked closely with the procurement teams at our contract manufacturer, Kelvinside Electronics, to secure stock to maintain production throughout the period. Demand plans and safety stock levels have been adjusted to increase the resilience to shortages with lead times now returning to pre-pandemic levels. The typical lead times our customers expect is 4-6 weeks, and it is not unusual for orders to be acknowledged with longer lead times (e.g. 8-10 weeks), for example, in periods of high demand. This tolerance of the customer base to accept longer lead times has assisted in the management of short term issues caused by production output delays due to component shortages.</p> <p>The Directors and executive management team continue to work closely with Calnex's internal operations team and Kelvinside Electronics to manage the situation and while some near-term disruptions to shipments dates are anticipated, it is not expected to impact our market position or ability to manage customer expectations.</p>	↓

Movement Key:

↑ Increased ↓ Decreased ↔ Unchanged

Risk	Impact	Mitigation	Movement since prior year
<b>DISTRIBUTION AND RELATIONSHIP WITH SPIRENT</b>	<p>Spirent is Calnex’s principal distribution partner. Spirent’s distribution network provides Calnex with access to a number of its key markets, including the US, China and India. In FY23, 69% of Calnex’s orders were distributed through Spirent. Given that the Spirent distributor relationship accounts for such a significant proportion of Calnex’s annual revenue, and provides Calnex with access to key markets, Calnex’s business could be materially adversely affected in the event of:</p> <p>(i) Spirent’s non-performance or breach of its obligations under the distributor agreement with the Group; (ii) Spirent terminating its distributor agreement with Calnex, or electing not to renew the arrangement upon the expiry of its current term on substantially the same terms; and/or (iii) Spirent suffering a force majeure event, or a bankruptcy or insolvency event or similar, which results in Spirent ceasing or significantly reducing operations.</p>	<p>The Board believes that the Spirent throughput in FY23 is not indicative of the Group’s reliance on Spirent for revenues and that Calnex has strong direct relationships with the relevant end users. In addition, all products are branded as Calnex products when they are sold through Spirent and customers are fully aware that they are buying a Calnex product through the Spirent channel.</p> <p>The Group has changed channel partners multiple times in the past and has managed this process with little disruption to trading.</p> <p>FY23 saw a reinforcement of the commitment by Spirent and Calnex to the ongoing relationship with the signing of an updated distribution agreement.</p>	↔
<b>ECONOMIC AND BUSINESS CYCLE IMPACT ON CAPITAL SPEND</b>	<p>A significant proportion of the group’s income is capital expenditure incurred by our customers to serve their engineering development projects. During times of economic uncertainty some such programmes across the sector can be subject to delays or postponement, though are rarely cancelled.</p>	<p>Stay closely connected to end-customers to ensure we can fully capitalise when spend approvals are restored.</p> <p>Explore options to use opex-based models where relevant, including rental and service models.</p>	New
<b>CYBER SECURITY RISK</b>	<p>The operational processes of Calnex and the management of the company’s intellectual property are all dependent on our IT systems.</p> <p>There are risks at all levels of the business ranging from all staff being subjected to potential scam emails and internet viruses, to a malicious cyber-attack on the company resulting in a potential ransomware threat.</p>	<p>The Group operates comprehensive staff training, systems and data security back-up and insurance procedures to protect against a cyber-based incident.</p> <p>The Group has a continual improvement approach to IT security controls and business procedures to mitigate cyber security risks, including regular tests of its security arrangements, for example implementing regular third-party penetration tests, to identify and subsequently address possible weaknesses within the current systems.</p>	↔

## Principal Risks and Uncertainties continued

Risk	Impact	Mitigation	Movement since prior year
<b>OTHER THIRD PARTY SUPPLIERS, DISTRIBUTORS AND CONTRACTORS</b>	The Group is reliant, to an extent, on third parties for various processes, products and services which the Group requires in order to deliver its products. Termination of these relationships and/or breach of arrangements agreed with third parties and/or failure of such third parties to otherwise deliver the contracted services and/or failure to engage alternative third parties could be a risk to the Group.	The Group monitors its relationships and maintains open dialogue with these key third parties closely to mitigate against this risk.	↔
<b>GEOPOLITICAL LANDSCAPE</b>	The political landscape within which the Group operates is going through a period of change, particularly with regards to US/UK/China relationships, the consequences of the UK's Brexit deal, potential developments around Scottish independence and the consequences of the Russian invasion of Ukraine. Changes to UK and international government policy, funding regimes, infrastructure initiatives, or the legal and regulatory framework may result in structural market changes or impact the group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency.	<p>The Group monitors carefully future developments that arise out of these changes to the landscape and will engage in any relevant regulatory processes. The geographical spread of the Group's operations acts as a mitigating factor against any concentrated economic risk.</p> <p>The Group has carried out little business with Russia, Ukraine or Belarus over the years hence the conflict involving these countries will have minimal direct impact on the business although the wider implications of the conflict continue to be monitored.</p>	↔
<b>TECHNOLOGICAL CHANGE</b>	The markets for the Group's products are characterised by rapidly changing technology, and increasingly sophisticated customer requirements. It is critical to the success of the Group to be able to anticipate changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis and keep pace with technological change.	<p>Calnex, since inception, has developed and maintained a close involvement with the standards community and with regulatory bodies to ensure it has early insight to industry developments to keep the Group's R&amp;D programmes well informed.</p> <p>Senior management also have regular meetings with key end customers to maintain visibility over their technology roadmaps.</p> <p>The insight from these relationships enables Calnex to produce a demand-led offering in line with market developments, customers' future requirements and regulatory standards.</p>	↔

Movement Key:

↑ Increased ↓ Decreased ↔ Unchanged

Risk	Impact	Mitigation	Movement since prior year
<b>KEY INDIVIDUALS</b>	The Group's business, development and prospects are dependent on a number of key management personnel. The loss of the services of one or more of such key management personnel may be a risk to the Group.	The directors believe the Group operates a progressive and competitive remuneration policy which includes the potential awards of share incentives to staff. The future development and implementation of this policy will play an important part in retaining and attracting key management personnel.	↔
<b>COMPETITIVE POSITION</b>	The Group operates in the telecoms industry and the Group's competitors are, in many cases, significantly larger enterprises with greater financial and marketing resources. There may also be new entrants to the market. In response to competitive activity, the Group may be forced to make changes to its products or services.	The executive management team monitor competitors' service offerings closely. Strong customer engagements also provide visibility of future needs which provide mitigation against a competitor gaining a significant time-to-market advantage.	↔



## S172(1) Statement

# S172(1) Statement

Section 172(1) of the Companies Act obliges the directors to promote the success of the Group for the benefit of the Company's members as a whole.

The section specifies that the directors must act in good faith when promoting the success of the Company and in doing so have regard (amongst other things) for:

- the likely consequences of any decision in the long-term;
- the interests of the Group's employees;
- the need to foster the Group's business relationship with suppliers, customers and others;
- the impact of the Group's operations on the community and environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The ways in which these duties are addressed is set out below:

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### Consequences of any decision in the long-term

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The Board is responsible for the decisions made in support of the long-term success of the Group and how the business has implemented strategic, operational and risk management decisions. For more information on the business strategy and developments during the year, refer to pages 6 to 7 of the Strategic Report.

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### Employees

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The Group has a strong focus on maintaining a culture of employee engagement and wellbeing. Our employees play a key role in the success of our business' strategic goals and the Board recognises the importance of a positive and supportive working environment for our staff.

Refer to pages 18 to 23 of the Strategic Report for further detail on our culture and employees, including activities during the year.

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### Suppliers, customers and regulatory authorities

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The Board recognises that trusted and constructive partnerships with our suppliers, customers and regulatory authorities are important to the success and growth of the business. The Board and the executive management team ensure transparent and regular communication with suppliers and customers and the business values the feedback we receive. We take every opportunity to ensure that this feedback is taken into consideration in the Group's decision making.

The sophisticated nature of Calnex's products requires a high level of customer and supplier interaction from Calnex staff throughout the sale process and the Group is typically regarded as a trusted partner by both its distributors and customers. The high level of engagement with customers and our key contract manufacturer provides Calnex with visibility of industry direction and gives valuable insight for the Group's R&D and product development activities.

The Group also has processes in place to monitor new regulations and compliance requirements that may impact the business – including, for example, compliance with required standards and certifications, financial accounting and reporting updates and tax accounting and reporting compliance. Although Calnex itself is not regulated as a supplier of electronic test instrumentation, the Group is required to comply with certain regulations regarding safety, quality and radio frequency emissions standards in order to market its products in certain jurisdictions.

Refer to pages 14 to 17 of the Strategic Report for further detail on the Group's interaction and relationship with our customers and suppliers.

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## Community and environment

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Although it is not mandatory for a Group of Calnex's size to report under the Streamlined Energy and Carbon Reporting (SECR) rules, awareness of the impacts on the environment and the community around us are considered in the Group's decision-making processes. The nature of the Group's business model and activities means a high proportion of processes which address current environmental challenges are embedded into our supply chain – predominantly through our landlord, our contract manufacturer and our distributor network. All of these key stakeholders who feed into Calnex's business model are also prioritising the environment in their planning and strategic decisions.

The Board is committed to fund a Calnex Corporate Giving Scheme equal to 1% of the profits we generate each year. An employee-led team (with senior management sponsorship) considers proposals from employees for donations or support for groups and/or events that matter to them. The Calnex senior management team want to support groups local to our employees to help to make a difference in our local communities.

Refer to pages 18 to 23 of the Strategic Report for more detail on the community and environmental activities undertaken by the Group and its supply chain.

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## Maintaining high standards of business conduct

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The Company is incorporated in the UK and is governed by the Companies Act 2006. Calnex has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"). The Board recognises the importance of maintaining high standards of corporate governance, and together with the requirements to comply with the AIM Rules, this ensures that the interests of the Group's stakeholders are protected. Robust financial controls are also in place and regularly reviewed and documented.

The Board ensures ethical behaviour and business practices are maintained across the business and compliance policies are provided to staff upon joining the business and recirculated annually. Training is also provided at regular intervals thereafter to ensure that all employees within the business are aware of their importance:

- Anti-bribery and corruption training is mandatory for all staff. The Group expects honest and professional behaviour from all staff and stakeholders and there is zero tolerance for bribery and unethical behaviour by anyone working in or with the Group;
- The Group also has an anti-slavery and human trafficking policy statement which all staff are made aware of; and
- A whistleblowing policy is in place to allow employees to raise any concerns confidentially with senior management, Board members or with Protect, the whistleblowing charity.

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## Shareholders

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The Board recognises the requirement to present fair, balanced and understandable information to all stakeholders and particularly our shareholders. The Group is committed to transparent and effective communications with its shareholders so that there is a clear understanding of the Group's strategic objectives and performance.

The Group's approach to investor relations is described in more detail in the Corporate Governance section at page 51.

## S172(1) Statement continued

The following table summarises some of the significant decisions made by the Board during the year ended 31 March 2023 which demonstrate the way in which the Board has exercised its section 172 (1) duty and the stakeholder groups impacted by their decision.

### Events in the year

Significant event	Key stakeholder group affected
<p><b>Community &amp; Environment/Charitable Giving</b></p> <ul style="list-style-type: none"> <li>At the end of FY22, the Board committed to setting aside 1% of our budgeted profits in future Financial Plans to create the Calnex Corporate Giving Scheme.</li> <li>We used 100% of the Calnex Corporate Giving Scheme this year. In FY23 Calnex donated £70,000 to 84 charities and organisations and social events across the globe through our Corporate Giving Scheme.</li> <li>Refer to pages 18 to 23 of the Strategic Review for more details on the Calnex Corporate Giving Scheme.</li> </ul>	<p>Community and environment</p> <p>Employees</p>
<p><b>iTrinegy Acquisition</b></p> <ul style="list-style-type: none"> <li>The acquisition of iTrinegy was completed on 11th April 2022.</li> <li>The objective of the acquisition is to expand our customer base by having a Network Emulation product that sells to companies developing software applications. The product can be purchased as both a physical implementation (where it is purchased as an instrument that the test environment runs inside the unit), or in a virtual implementation, (where it can be loaded and operated in a cloud environment alongside the software application under test).</li> <li>An objective of year 1 was to build out the Business Development Team and also review fully the route to market to ensure the channel partners would support growth in key markets. This has been achieved with additional resource now in place and new channel partner contracts signed to cover the US.</li> <li>A second objective outwith the successful integration of the team and systems was to expand the R&amp;D team, particularly around the pre-release verification resource and processes, as well as strengthening the post-shipment support resource. This has been achieved and we now have the full team in place that will support the expected growth in customer base.</li> </ul>	<p>Customers</p> <p>Shareholders</p> <p>Employees</p>



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**Kelvinside/Components supply shortages**

- The strength of the relationship continues to be demonstrated by the proactive support and cooperation between the teams in managing the issues created by the global supply chain issues.
- The procurement strategy adopted by Calnex, complemented by the skills, knowledge, and experience of Kelvinside's procurement team working with Calnex Operations and R&D teams, have enabled Calnex to navigate numerous issues to maintain customer shipments on committed ship dates.
- In parallel to dealing with the day-to-day issues, Calnex has developed a robust forecasting process, supported by Kelvinside, to increase forecast visibility, flexibility, and responsiveness to mitigate material issues and support repeatable and predictable instrument availability.

Suppliers

Customers

Shareholders

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**Hybrid working**

- Post the Covid-19 pandemic lockdown, Calnex introduced a hybrid working model which was well received by employees.
- With the exception of our overseas teams (who had all worked from home pre-pandemic and continue to do so post-pandemic), all employees come into the UK offices on Tuesdays and Thursdays each week, with flexibility to work from home on the remaining days of the week.
- The company has maintained this model throughout FY23 and plans to continue with this approach in future periods.

Employees

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**Further details**

For further details of how the Board operates and the way in which it makes decisions, including key activities during the financial year ended 31 March 2023 and Board governance, refer to the Corporate Governance section at pages 44 to 51 and the Board Committee reports thereafter.

This Strategic Report was approved by the Board on 23 May 2023 and signed on its behalf by:


**Ashleigh Greenan**

Chief Financial Officer and Company Secretary  
22 May 2023

## Board of Directors

# Our leadership

**Stephen Davidson**  
Independent Non-Executive Chair



Stephen Davidson is an accomplished director of both public and private companies, with more than 20 years' PLC-board experience. He is currently a Non-executive Director at JSE-listed Datatec plc and MCB Group Limited. Stephen was previously Non-executive Director at Informa plc, Actual Experience plc, Rosenblatt Group plc, Restore plc, Jaywing plc, Inmarsat plc and MECOM plc. In his earlier career Stephen was Chief Financial Officer and then Chief Executive Officer of Telewest Communications plc and Vice Chair of Investment Banking at WestLB Panmure. Stephen was appointed as Chair on 17 August 2022 following George Elliott's resignation as director and Chair after nine years.

**Tommy Cook**  
Chief Executive Officer



Tommy is the founder and CEO of Calnex Solutions. He has over 40 years' experience in telecoms test and measurement ranging from hands-on design and programme management of R&D projects through to leading business teams within the market segments in which Calnex currently operates. Tommy has participated in a number of Industry Standards forums during his career, including the ITU-T and MEF groups, and presented technical and market insight papers in industry forums.

**Ashleigh Greenan**  
Chief Financial Officer



Ashleigh qualified as a chartered accountant with Deloitte before spending 5 years at KPMG in transaction services. She has held senior finance and corporate development roles at Exova Group plc, the UK materials testing business, before joining Parsons Peebles Group Limited, where she was a director of a number of group companies and held the role of Chief Financial Officer until she joined Calnex in early 2020.

**Graeme Bissett**  
Independent Non-Executive Director



Graeme is an experienced corporate financier and qualified chartered accountant, having previously been a partner with Arthur Andersen LLP and finance director of international groups. He is currently a non-executive director of Smart Metering Systems plc, Aberforth Split Level Income Trust plc and Cruden Holdings Ltd. Graeme was formerly Chair of Macfarlane Group PLC and acted as a non-executive director of businesses including Interbulk Group plc and Belhaven Group plc. He currently undertakes a number of pro bono appointments including as Trustee at Citizens Advice Scotland and the Entrepreneurial Scotland Foundation.

**Margaret Rice-Jones**  
Independent Non-Executive Director



Margaret has over 20 years' experience at Board level in public and private software and technology companies. Margaret's current roles include acting as Senior Independent Director at main market-listed De La Rue plc, Chair at Origami Energy Limited, a VC-backed energy-focused technology business, and non-executive director at Holiday Extras Investments Limited. Previously, Margaret was Senior Independent Director of Xaar plc and chaired private companies Skyscanner Limited and Penguin Portals Limited until they were sold for £1.4bn and £509m, respectively.

**Helen Kelisky**  
Non-Executive Director



Helen brings over 30 years' of technology sales leadership experience and a track record of driving top line growth, leading national and international businesses. Helen is currently Managing Director of Google Cloud in the UK and Ireland, responsible for leading its sales strategy and go-to-market sales operations. Previous roles include Board member and Vice President of cloud sales at Salesforce UKI, and Vice President of Cloud at IBM, where she spearheaded the \$1 billion+ business for cloud services and software Sales and Delivery.



## Corporate Governance Report



The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value.”

**Stephen Davidson**  
Chair of the Board



### Introduction

I have pleasure in introducing Calnex’s Corporate Governance Statement.

In accordance with the London Stock Exchange AIM Rules for Companies (‘AIM Rules’), the Board has chosen to apply the Quoted Companies Alliance’s (‘QCA’) Corporate Governance Code 2018 (the ‘QCA Code’) on the basis that it is the most appropriate governance code for the Group, having regard to its size and structure.

The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value. The Board has governance procedures and policies that are considered appropriate to the nature and size of the Group and its subsidiaries.

The QCA Code is constructed around ten broad principles. The QCA has stated what it considers to be appropriate arrangements for small and mid-size companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures.



A summary of how the Group currently complies with the QCA Code is set out below. There is also a summary on the Group's website corporate governance page.

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**Principle 1: Establish a strategy and business model which promote long-term value for shareholders**

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The Board is committed to delivering long-term value for Calnex's shareholders. The Board conducts an annual review of the Group's strategy, alongside regular discussions on progress against the business' strategic aims.

The Group's business model and strategy and key developments during the year are discussed in more detail on pages 4 to 7 of the Company Overview.

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**Principle 2: Seek to understand and meet shareholder needs and expectations**

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The Group is committed to open and ongoing engagement with all its shareholders on the business' performance and strategy and maintaining positive relationships with shareholders is important to the Board.

The Chair of the Board is responsible for ensuring that appropriate methods of communication are established between the executive directors and shareholders, ensuring shareholders' views and feedback are shared with the Board.

The Chief Executive Officer and Chief Financial Officer meet with the Group's major shareholders on investor roadshows in the days following the release of the Group's interim and annual results, and certain other ad hoc meetings that take place during the year, to discuss the Group's performance and to understand shareholder needs and expectations. The non-executive directors are also available to discuss any matters that shareholders wish to raise and discuss.

The Group ensures that any price sensitive information is released to all shareholders, institutional and private, at the same time in accordance with London Stock Exchange requirements. Updates to the market are published via the regulatory news service ("RNS") on matters of a material substance and/or a regulatory nature. In conjunction with the Group's brokers and public relations advisers, RNS announcements will be distributed in a timely fashion to ensure shareholders are able to access material information on the Group's progress.

The Group's website ([www.calnexsol.com](http://www.calnexsol.com)) has a section for investors, which is kept updated to contain all publicly available financial information and news on the Group. Our shareholders also have the opportunity to ask questions through a dedicated investor relations email address throughout the year. The Group engages the services of a financial PR consultancy, which acts as another point of contact for investors.

The Annual General Meeting is an important opportunity for the Board to engage with shareholders, particularly retail investors. The Notice of AGM is sent to shareholders at least 21 days before the meeting. The Chair of the Board, together with all the other directors, whenever possible, attend the AGM and are available to answer shareholder questions.

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**Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long term success**

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Refer to the s172 Statement on pages 40 to 43 and the ESG section of the Strategic report on pages 18 and 23 for further details on how we engage with our stakeholders.

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**Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation**

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A summary of the Group's risk management framework and the principal risks and uncertainties relating to Calnex and its business, along with how those risks are mitigated, is on pages 34 to 39 of the Strategic Report.

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## Corporate Governance Report continued

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### Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

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The Company is controlled by the Board of Directors. The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group. They are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the Chair of the Board.

A Statement of Directors' Responsibilities is set out on page 66 and the experience of the Board is set out on page 44.

#### Board composition

The Board consists of six directors, two of whom are full time executives and four whom are part time non-executives. The non-executive directors devote as much time as is necessary to fulfil their roles. The Group considers all four of the non-executive directors to be independent.

During the year, George Elliott and Ann Budge resigned as directors after nine and thirteen years on the Board respectively. Helen Kelisky was appointed to the Board in January 2023.

The Board is satisfied with the balance between executive and non-executive directors. The Board considers that its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between executive and non-executive directors. The Group believes that the makeup of the Board represents a suitable balance of independence and detailed knowledge of the business to ensure that it can fulfil its roles and responsibilities as effectively as possible. The executive directors are directly responsible for running the business operations and the non-executive directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board.

The Board is highly committed and experienced and is supported by qualified executive and senior management teams. The executive management team includes two members of the Board, the Chief Executive Officer and the Chief Financial Officer.

Before undertaking the appointment of a non-executive director of the Board, the Chair establishes that the prospective director can give the time and commitment necessary to fulfil their duties, in terms of availability both to prepare for and attend meetings and to discuss matters at other times.

#### Board meetings

Board meetings are planned to occur not less than seven times a year with additional meetings as and when required. The Chair is responsible for ensuring that directors receive accurate, sufficient and timely information. A scheduled meeting calendar is arranged as far in advance as possible, and ad hoc meetings are held in person or by video conference when it is necessary for the Board to discuss specific issues.

The Company Secretary compiles the Board and committee papers which are circulated to directors prior to meetings, together with a formal agenda. The Company Secretary provides minutes of each meeting, and every director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate. Information on the Group's operational and financial performance is circulated to the directors in advance of meetings.

The business reports monthly on its headline performance against its agreed budget and market consensus, and the Board evaluates any significant variances. Executive management are invited to meetings from time to time, providing the whole Board with the opportunity for direct enquiry and a thorough overview of the Group.

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**Principle 5: Maintain the board as a well-functioning, balanced team led by the chair** continued

Meetings of the Board and its committees held in the year to 31 March 2023 and the attendance of the directors are summarised below:

	Board	Audit Committee	Remuneration Committee	AIM Compliance Committee	Nomination Committee
Minimum requirement for meetings	7	3	3	2	1
Meetings held in year	11	3	4	2	1
Stephen Davidson	11	3	4	2	1
George Elliott <sup>1</sup>	2	1	2	1	–
Tommy Cook	11	2	4	2	1
Ashleigh Greenan	11	3	4	2	1
Graeme Bissett	11	3	4	2	1
Margaret-Rice Jones	11	3	4	2	1
Ann Budge <sup>2</sup>	5	2	3	1	1
Helen Kelisky <sup>3</sup>	3	1	1	–	1

1 George Elliott resigned as Chair and director on 17 August 2022.

2 Ann Budge resigned as director on 28 February 2023.

3 Helen Kelisky was appointed as director on 17 January 2023.

**Roles and responsibilities of the Chair and the Executive Directors**

The role of the Chair and CEO are split in accordance with best practice.

The Chair has the responsibility of ensuring that the Board discharges its responsibilities and facilitates full and constructive contributions from each member of the Board in determination of the Group's strategy and overall commercial objectives. The Chair oversees the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the non-executive directors are properly briefed on matters. The Chair has overall responsibility for corporate governance matters in the Group and chairs the Nomination Committee.

The Board retains ultimate accountability for good governance and is responsible for monitoring the activities of the executive management team.

The CEO manages the day-to-day business activities of the Group and the executive management team ensuring that strategic and commercial objectives are met. He is accountable to the Board for the operational and financial performance of the business. The CFO is responsible for the Group's financial controls and reporting to the Board.

The executive management team which comprises representatives from sales, operations, R&D, finance and HR reports to and regularly engages with the CEO. The day-to-day operations of the Group are managed by the executive management team.

**Board Committees**

The Group has established Audit, Remuneration, Nomination and AIM Compliance committees with clearly defined terms of reference which are set by the Board:

- The Audit Committee has the primary responsibility of monitoring the quality of internal controls and ensuring that the financial performance of Calnex is properly measured and reported on. The Committee also considers the appropriateness of the Group's accounting policies on an annual basis. The Committee liaises with Group's auditors on future changes to such accounting policies. Further details are included in the Audit Committee Report at pages 57 to 60.
- The Remuneration Committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. Further details are included in the Remuneration Committee Report at pages 52 to 56.
- The Nomination Committee regularly reviews the structure, size and composition of the Board. Further details are included in the Nomination Committee Report at page 61.
- The AIM Compliance Committee is responsible for ensuring that the Group has in place at all times appropriate procedures, resources and controls to enable it to comply with the AIM Rules. Further details are included in the AIM Compliance Committee Report at page 62.

## Corporate Governance Report continued

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### **Principle 6: Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities**

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Each member of the Board brings different skills and experience to the Board and the Board Committees. The Board is satisfied that there is sufficient diversity in the Board structure to bring a balance of skills, experience, independence and knowledge to the Group. Where vacancies arise or gaps are identified that must be addressed, the Board (via the Nomination Committee) follows a rigorous selection process using external executive search agencies. More detail on the biographies of the Board of Directors can be found on pages 44 to 45.

The Board conducts an annual review of its composition to ensure there is adequate diversity to allow for its proper functioning and that the Board works effectively together as a unit. When a new appointment to the Board is to be made, consideration will be given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition.

The non-executive directors hold senior positions with other companies ensuring that their knowledge is continuously refreshed. Specific training will be provided to the Board by the Group when required to support the directors' existing skillsets.

The Board has access to external advice, including the Company's solicitors where required. The Board is provided with specific training on the AIM Rules for Companies by its Nominated Adviser on an annual basis. The Company's Nominated Adviser is available to provide guidance and additional training to the Board on specific regulatory matters as required.

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### **Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**

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The effectiveness of the Board, individual directors and senior management is evaluated on an ongoing basis as part of the Board's ongoing review of the business.

In line with the requirements of the QCA Code, an annual evaluation process is undertaken, led by the Chair, which considers the effectiveness of the Board, its Committees and individual directors, highlighting relevant areas for improvement. A detailed questionnaire is completed by each director, with the results collected by the Chair and discussed by the Board. The most recent evaluation during the year concluded that the Board and the Committee performances had been satisfactory and the addition of Margaret Rice-Jones and Stephen Davidson in late FY22 strengthened the Board and enhanced its expertise and skill set. The evaluation also concluded that the Board would be strengthened further by adding another non-executive director with industry and domain experience, particularly due to the planned retirement of Ann Budge in late FY23. As a result, Helen Kelisky was appointed as non-executive director in January 2023.

The Board will execute an external review of its performance at an appropriate time in the future.

The Board's effectiveness is also assessed in an informal manner by the Chair on an on-going basis. The Chair has been tasked with assessing the individual contributions of each of the members of the team to ensure that their contribution is relevant and effective, they are committed and, where relevant, can continue to be considered independent.

The performance of the Chair is reviewed annually by means of a survey led by the Audit Committee Chair who canvasses views from directors and key advisers.

The Nomination Committee is responsible for considering succession planning and advising the Board accordingly.

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**Principle 8: Promote a corporate culture that is based on ethical values and behaviours**


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The Board places significant importance on the promotion of ethical values and behaviours within the Group and takes ultimate responsibility for ensuring these are promoted and maintained throughout the organisation and that they guide the Group's business objectives and strategy.

Calnex is an innovative and forward-thinking business where employees are encouraged to share their views, contribute to decision making, challenge behaviours and improve processes to make a positive contribution to business success. The Group has a diverse workforce where inclusion is key to building high performing, engaged and successful teams.

The impact of the Group's people-related processes is monitored through the annual employee appraisal process and through the use of a satisfaction and engagement survey which is performed annually. The executive team reviews the key findings of the survey and determines whether any action is required.

The Group has documented procedures with respect to its responsibilities regarding ethical behaviour, specifically bribery and corrupt practices and modern slavery and employees receive training in these areas on a regular basis.

The Group has adopted, and will operate as applicable, a code for Directors' and applicable employees' dealings in securities in accordance with Rule 21 of the AIM Rules for Companies.

All Group policies are available to the staff through the Group SharePoint.

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**Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the Board**


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The Board has overall responsibility for promoting the success of the Group.

Further detail on Board and Committee roles and responsibilities are described above under 'Principle 5: Maintain the board as a well-functioning, balanced team led by the chair'.

The Board has a formal schedule of matters reserved to it, including the approval of annual financial plans and the review of performance against these plans, the Group's strategy and objectives, and the treasury and risk management policies.

The Board reviews its governance framework on a regular basis to ensure it is fit for purpose and carries out a review of the Committees' Terms of Reference during each financial year.

Reports of the Board's Audit, Remuneration, AIM Compliance and Nomination Committees can be found at pages 46 to 62 of the Governance section of this Annual Report.

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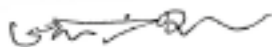
**Principle 10: Communicate how the company is performing by maintaining a dialogue with shareholders and other relevant stakeholders**


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The Group places a strong emphasis on the standards of good corporate governance and maintaining an effective engagement with its shareholders and key stakeholders, which it considers to be integral to longer-term growth and success and it aims to ensure that all communications concerning the Group's activities are fair, balanced and understandable.

Communications with shareholders and communications with other relevant stakeholders are described in detail above under 'Principle 2: Seek to understand and meet shareholder needs and expectations' and 'Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success' respectively.

The Group's website sets out details of the Group and its activities, regulatory announcements and press releases, annual and half year reports, AGM notices, outcome of AGM votes and other governance materials required by the AIM Rules for companies and the QCA Code.



**Stephen Davidson**  
Non-Executive Chair  
22 May 2023

## Remuneration Committee Report



The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value.”

**Margaret Rice-Jones**

Chair of the Remuneration Committee



### Introduction

On behalf of the Board, I am pleased to present Calnex’s Remuneration Committee Report for the year ended 31 March 2023.

This report outlines the Group’s remuneration policy for its directors and shows how that policy was applied during the year. As the Company is quoted on the AIM Market of the London Stock Exchange (‘AIM’), Calnex is not required to comply with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and is under no obligation to prepare a directors’ remuneration report. This section of the annual report has been prepared on a voluntary basis and fulfils the relevant requirements of Rule 19 of the AIM Rules for Companies.



### Members of the Remuneration Committee

The Remuneration Committee comprised the non-executive directors throughout the year or from date of appointment as appropriate and, up to and including 31 March 2023, was chaired by Graeme Bissett. From 1 April 2023, the Committee will be chaired by Margaret Rice-Jones. The Committee invites the executive directors to attend its meetings when appropriate. In exercising this role, the directors have regard to the recommendations set out in the QCA Code.

No director or senior manager is permitted to be involved in any decision as to his/her own remuneration.

The non-executive directors of the Committee have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group.

### Roles and responsibilities

The duties of the Remuneration Committee are set out in its terms of reference, which are available on the Company's website. The Remuneration Committee meets at least three times a year and its main responsibilities are:

- to ensure that the Company's remuneration policy attracts and retains employees with the right skills and expertise needed to enable the Company to achieve its goals and strategies;
- to ensure that fair and competitive compensation, with appropriate performance incentives, is awarded;
- to review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of service;
- to make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation.
- for all long term incentive plans, to determine each year the overall number of awards and the individual awards to executive directors and senior management;
- to review and approve Group-wide salary increases and discretionary employee profit share payments; and
- to review any major changes in employee benefits structures throughout the Group.

The Committee met four times during the year to 31 March 2023. Activities included review and approval of:

- the executive directors' bonus plan structure;
- the executive directors' remuneration for the year ended 31 March 2024;
- the executive management team bonus plan structure;
- a review of the next phase of equity incentive arrangements for senior management;
- the structure of the employee profit share calculation; and
- share option awards and other equity related incentive schemes.

The Remuneration Committee also met just after the year end to approve the final calculations for executive director bonuses. The members' attendance record at Committee meetings during the financial year is set out in the Corporate Governance report at page 49.

The Company allows executive directors to hold external directorships subject to agreement by the Chair on a case-by-case basis and, at the discretion of the Committee, to retain the fees received from those roles.

## Remuneration Committee Report continued

### Directors' Remuneration for the year ended 31 March 2023 (unaudited)

The table below sets out the detailed emoluments of each director who served during the year:

	2023					2022
	Salary/fees £000	Benefits in kind £000	Bonus £000	Pension £000	Total £000	Total £000
<b>Executive directors</b>						
Tommy Cook	195	3	39	–	237	255
Ashleigh Greenan <sup>1</sup>	145	1	28	7	181	215
<b>Non-executive directors</b>						
Stephen Davidson <sup>3,4</sup>	59	–	–	–	59	10
George Elliott <sup>2</sup>	26	–	–	–	26	65
Graeme Bissett	50	–	–	–	50	50
Ann Budge <sup>5</sup>	39	–	–	–	39	40
Margaret Rice-Jones <sup>3</sup>	42	–	–	–	42	10
Helen Kelisky <sup>6</sup>	9	–	–	–	9	–
<b>Total</b>	<b>565</b>	<b>4</b>	<b>67</b>	<b>7</b>	<b>643</b>	645

1 Salary figures for Ashleigh Greenan include £5,000 car allowance.

2 George Elliott resigned as director on 17 August 2022. His remuneration is to the date of his resignation.

3 Margaret Rice Jones and Stephen Davidson's remuneration is from the date of appointment as director on 10 January 2022.

4 Stephen Davidson's FY23 remuneration reflects his appointment as Chair on 17 August 2022.

5 Ann Budge resigned as director on 28 February 2023. Her remuneration is to the date of her resignation.

6 Helen Kelisky's remuneration is from the date of appointment as a director on 17 January 2023.

The table above does not include the value of share options held by the directors, details of which are set out below. The main components of executive directors' remuneration comprise:

- Basic salary
- Performance-related bonus
- Defined contribution to personal pension plan
- Other benefits such as car allowances, medical and life assurance
- Long term incentives (share option scheme)
- Share Incentive Plan participation (under HMRC rules, the SIP has to be open to all employees, including executive directors)

#### Basic salaries

The basic salary of the executive directors is reviewed annually by the Remuneration Committee, with changes, if any, taking effect on 1 April of each year, to take account of market and other factors.

#### Performance-related bonus

The executive directors participate in a bonus plan which is linked to the achievement of financial and individual performance targets set by the Remuneration Committee.

The bonus opportunity has been phased to a maximum of 100% of basic salary over a three-year period from 31 March 2020 to 31 March 2023.

In the year to 31 March 2022, the bonus plan was structured to pay a maximum of 70% of annual basic salary for the Chief Executive Officer and the Chief Financial Officer. In the year ended 31 March 2023, the bonus opportunity for each executive director was increased to 100% of annual salary.

Bonuses payable are subject to the discretion of the Remuneration Committee after considering an overall view of the Group's performances and its assessment of financial and personal performance.

In the year ended 31 March 2023, performance against targets resulted in a bonus award of 20% of salary for both the Chief Executive Officer and the Chief Financial Officer, as a result of the Group's performance aligning to market expectations for the year.

### Pension contributions

The Chief Executive Officer does not participate in the Company pension scheme. A contribution of 5% per annum of basic salary is paid into the scheme by the Company, on behalf of the Chief Financial Officer.

### Other benefits

The Company pays for private healthcare for each executive director and 50% towards the cost of private healthcare for their immediate family, together with life assurance scheme cover. The Company provides a company car allowance for the Chief Executive Officer and Chief Financial Officer.

### Equity incentive schemes

The Company has long-term incentive schemes in place designed to provide the executive directors and other senior management with share options vesting equally after three, four and five years based on performance of the Company's ordinary share price. These long-term incentives are provided through the operation of the following arrangements:

- Calnex Solutions plc EMI Share Option Plan (EMI Plan), which allows tax advantaged options to be granted over the Company's shares to selected employees of the Group (including executive directors) based in the UK. As of March 2022, the Company is no longer eligible to grant EMI options to employees due to its size.
- Calnex Solutions plc Company Share Options Plan (CSOP Plan), which allows tax advantaged options to be granted over the Company's shares to selected employees of the Group (including executive directors) based in the UK.
- USA Incentive Stock Option Addendum to the EMI Plan (USA ISO Addendum): The EMI plan permits the Board to establish schedules to the Plan in order to adapt the Plan to other jurisdictions covering overseas employees and as a result, the Board has authorised an addendum in order to adapt the Plan to the tax laws of the United States, which allows tax advantaged options to be granted over the Company's shares to selected employees in the USA;
- Calnex Solutions plc Unapproved Share Option Plan (Unapproved Plan) which enables non-tax advantaged options to be granted to selected employees and contractors worldwide; and
- Calnex Solutions plc Notional Share Option Plan (Notional Plan) which enables non-tax advantaged shadow equity interests to be granted to selected employees and contractors worldwide, which are settled by way of a cash payment.

The price per share payable on exercise of any share options will normally be equal to the market value of a share on the date they were originally granted.

Details of options for directors who were in office at 31 March 2023 are as follows:

	2023			
	Type	No. of shares under option	Exercise price	Date of grant
<b>Executive directors</b>				
Ashleigh Greenan	EMI Plan	500,000	48p	05/10/2020

One third of the share options awarded vests after three years; the next third vests after four years; the remaining third vests after five years. No performance conditions are applicable to options under the EMI Plan other than continued employment.

### Long Term Incentive Plan (LTIP)

As the Company has increased its market capitalisation substantially since its Admission to AIM and is now an established AIM-traded business with a market capitalisation of around £100m, the Committee wishes to ensure that the executive and senior management team are appropriately incentivised to continue to deliver performance against financial KPIs which in turn generates long term sustainable value for shareholders. The Committee therefore intends to implement a performance based LTIP for the executive and senior management team, under which annual awards subject to performance metrics will be granted. This is in line with long term incentive structures typically adopted by larger AIM companies and Main Market companies.

The Committee intends to grant the first awards to the executive and senior management team in June 2023, following the announcement of the Company's annual results for the year ending 31 March 2023 (the "FY24 Awards").

## Remuneration Committee Report continued

Key terms of the performance based LTIP:

- Awards will be structured as nominal cost share options which vest subject to the satisfaction of performance metrics.
- Awards will be granted on an annual basis.
- The normal maximum opportunity will be up to 100% of salary in respect of a financial year. The Committee considers this to be market competitive taking into account the scale of the Company.
- Awards will vest subject to the satisfaction of performance metrics measured over three years. The FY24 Awards will be subject to performance metrics measured over the period 1 April 2023 to 31 March 2026 (i.e. over FY24, FY25 and FY26).
- The proposed performance metrics for the FY24 Awards are Earnings Per Share (50% weighting), Revenue (25% weighting) and absolute Total Shareholder Return (25% weighting). The Committee believes that these metrics incentivise the executive and senior management team to deliver long term top-line and profitable growth and provide alignment with shareholder interests.
- The awards will be subject to malus between the grant date and the vesting date and subject to clawback between the vesting date and the fifth anniversary of the grant date in specific circumstances.

In line with good governance practice, the Committee will also have discretion to adjust the formulaic vesting outcome if it is not reflective of underlying financial performance during the performance period.

The Committee obtained external advice on the design of the LTIP and alignment with market practice. An ongoing and transparent dialogue with shareholders is important to the Committee and, as such, the Committee consulted with investors holding 53% of our share register, excluding the shareholdings held by members of our Board, to inform them of the plan to implement the LTIP scheme and to offer the chance for shareholders to provide feedback on the key terms of the scheme.

### Executive directors' service contracts

The executive directors have entered into service contracts with the Group that are terminable by either party on no less than six months' notice.

### Non-executive directors

The non-executive directors do not participate in performance related bonus or share based incentive arrangements. Each of the non-executive directors has a letter of appointment stating their annual fee. The level of fees for non-executive directors (other than the Chair) is determined by the Chair and the executive directors. The Chair's fees are determined by the Committee members other than the Chair. The appointment of non-executive directors may be terminated on one months' written notice at any time.

### Share price information

The market price of the Calnex Solutions plc ordinary shares at 31 March 2023 was 110.5 pence and the range during the year was 107.5 pence to 194.5 pence.

### Calnex Solutions plc Employee Share Incentive Plan (SIP)

The Company has put in place a Share Incentive Plan (SIP), an HMRC approved all-employee plan that offers the Company the ability to award equity to employees in a flexible and tax-advantaged manner. The SIP is open to all UK resident employees, including executive directors.

Employees can acquire Ordinary Shares ("Partnership Shares") up to the lower of £1,800 or 10% of their salary in any tax year, and will be awarded one additional Ordinary Share ("Matching Shares") by the Company for every Ordinary Share they acquire. The Company can also award up to £3,600 worth of free Ordinary Shares ("Free Shares") in any tax year per employee. Dividends paid on SIP shares can be paid out in cash or re-invested to purchase further SIP shares ("Dividend Shares"). The Company currently opts to pay dividends out in cash.

Free and Matching Shares are subject to a holding period of three years and employees cannot remove them from the SIP during this period whilst they remain employed by the Company. These shares are held in trust in the name of the individual. Under the terms of this scheme, the Free and Matching Shares will be forfeited if the participant leaves the employment of the Company within this holding period unless the employee is a good leaver. If the employee withdraws any Partnership Shares within the same holding period, they will forfeit the corresponding Matching Shares unless they are a good leaver.

Once SIP shares have been held in the SIP for 5 years from the date of award there is no income tax or NICs to pay.

Any increase in value whilst shares remain in the SIP is not subject to Capital Gains Tax.

Under the SIP Plan, shares may only be awarded to UK based employees of the Group. As the Board also wanted to have the discretion to grant awards to contractors and overseas employees, it was necessary to set up the separate Notional Plan. This Plan acts as a non-tax advantaged shadow equity interest plan to the SIP, mirroring the SIP awards for overseas employees and contractors with equity ownership being replaced by cash settlement.

### Directors' share interests

The directors' shareholdings in the Company are shown in the Directors' Report on page 63.



**Margaret Rice-Jones**  
Chair of the Remuneration Committee  
22 May 2023

## Audit Committee Report

On behalf of the Board, I am pleased to present Calnex's Audit Committee Report for the year ended 31 March 2023.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Group's financial reporting and internal control policies, compliance with corporate governance and procedures for the identification, assessment, and reporting of risk. It reviews reports from the executive management team and external auditors relating to the interim and annual accounts and the Group's accounting and internal control systems. The Audit Committee is also responsible for advising on the appointment of and overseeing the relationship with the external auditor.

### Members of the Audit Committee

The Audit Committee comprised the non-executive directors throughout the year or from date of appointment as appropriate and is chaired by Graeme Bissett. The Committee invites the external auditor, executive directors and other senior managers to attend its meetings when appropriate.

The Audit Committee is considered to have sufficient, recent and relevant financial experience to discharge its functions.

### Roles and responsibilities

The duties of the Audit Committee are set out in its terms of reference, which are available on the Company's website. The Committee's key functions include reviewing and advising the Board on:

- the integrity of the financial statements of the Group, including its annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance;
- compliance with accounting standards and legal and regulatory requirements;
- decisions of judgement and risk affecting financial reporting;
- disclosures in the interim and annual report and financial statements;
- any change in accounting policies;
- the effectiveness of the Group's financial and internal controls;
- the Group's risk management processes, including principal risks and internal control findings highlighted by management or external audit;
- the appointment and remuneration of the external auditor;

- any significant concerns of the external auditor about the conduct, results or overall outcome of the annual audit of the Group; and
- any matters that may significantly affect the independence of the external auditor.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and Interim Report remains with the Board.

The Audit Committee has committed to meet no less than three times in each financial year. The Audit Committee met three times in the year ended 31 March 2023. The members' attendance record at Committee meetings during the year is set out in the Corporate Governance report at page 49.

Activities in the year ended 31 March 2023 included:

- the review and approval of the Group's Annual Report and Accounts for the year ended 31 March 2022;
- the review and approval of the Group's September 2022 Interim Report;
- the review and approval of the audit plan presented by the Group's auditors for the year ended 31 March 2023;
- the review of the independence of the Group's external auditors;
- the consideration of the reports from management and external auditors identifying any accounting or judgemental issues requiring the Board's attention; and
- the monitoring of internal controls and reviewing the Group's risk management framework.

The Audit Committee also met after the year end to approve the Group's Annual Report and Accounts for the year ended 31 March 2023. The Audit Committee reviewed and was satisfied that the judgements exercised by management on material items contained within the Group's Annual Report and Accounts are reasonable.

## Audit Committee Report continued

Significant areas considered by the Committee in relation to the financial statements for the year ended 31 March 2023 are set out below:

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**CARRYING VALUE AND  
CAPITALISATION OF  
INTANGIBLE ASSETS**

The group had intangible assets, comprising intellectual property, development costs, and goodwill with a total carrying value of £12.5m as at 31 March 2023, consisting of development costs of £9.5m, intellectual property of £1.0m and goodwill of £2.0m. These assets inherently carry a greater risk of error as their valuation is subject to management estimation.

Goodwill of £2.0m and an intellectual property intangible of £1.3m have arisen during the year upon acquisition of iTrinegy Ltd and is discussed further in the section below.

£4.5m of expenditure has been capitalised as development costs in the year. Conditions for capitalisation are prescribed by IAS 38 Intangible Assets and the satisfaction of these criteria is subject to management judgement.

The brought forward net book value of intangible assets in respect of development costs was £8.3m and closing net book value was £9.5m as at the end of FY23. This value, including costs capitalised in the year, is allocated to products using the Group's R&D work planner, based mainly on the monthly number of R&D employees working on each project, together with an assessment of forecasted sales for each product.

There are no development costs included within the historical balance for projects that were unsuccessful or cancelled.

During the year, a review of the brought forward development costs has resulted in an elimination of costs and amortisation of £1.4m, resulting in a net book value impact of £nil. This reflects removal of fully amortised aged spend on product features that are now considered to be superseded by current product developments.

There have been no indicators of impairment of this balance in the year.

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**ITRINEGY BUSINESS COMBINATION**

The Group purchased 100% of the share capital of iTrinegy Ltd in April 2022 and the acquired entities' results have been reflected from that date in the consolidated results for FY23.

Within the Group intellectual property intangibles balance, additions of £1.3m were recognised in the year relating to the fair value assessment of intellectual property on the NE-ONE product range resulting from the business combination. This intellectual property is amortised over 5 years, in line with the Group's accounting policy and the expected lifespan of the products and technological improvements, and resulted in £0.3m of amortisation being charged to administration expenses in the year. This balance is offset by a £0.3m deferred tax liability recognised in relation to the fair value uplift on the intangibles balance.

Goodwill of £2.0m was also recognised on acquisition of iTrinegy. In compliance with the IAS 36 Impairment of Assets, the carrying value of goodwill within the consolidated financial statements of the Company was tested for impairment.

As this was the first year for which goodwill has been recognised within the consolidated financial statements, this was the first annual impairment assessment and aligned with the end of the current financial year.

The Board believes that the goodwill figure fairly represents the benefits that Calnex's sales and distribution teams can bring to the NE-ONE product, which is evident in the sales volumes achieved in the year.

As the Group has a central cost structure and a central pool of assets and liabilities, the Board does not consider segmentation in their review of costs or the statement of financial position. Critical to the core hardware and software sales across all platforms is a centralised R&D and support team who provide key customer engagement and support both pre and post order submission. This is viewed as an essential product discriminator to win business within the sector. As such, the impairment review of goodwill was performed at a Group level, which the Board deems reflective of the way the entity manages its operations and with which the goodwill would naturally be associated.

There is no adjustment required for impairment of goodwill for the year ended 31 March 2023.

**SHARE-BASED PAYMENTS**

In the year to 31 March 2023, 797,500 new share options were awarded vesting over 3-5 year periods. This, in addition to the share options in issue at the start of the year of 4,474,935, resulted in a charge of £0.3m to the Income Statement.

The fair value assessment on these options was calculated using the Black-Scholes Model. Key assumptions used in the model included:

- Expected market volatility of 63.4-67%. This was determined by calculating the historical volatility of the Group's share price over the previous year, which the Board considers to be representative of future volatility;
- Risk free rate of 0.75%-4.25%; and
- Dividend yield of 1%.



## Audit Committee Report continued

### External auditors

The Company engaged RSM UK Audit LLP ("RSM") to act as external auditors for the year to 31 March 2023. RSM have been the Group's external auditors since September 2020. RSM is invited to attend Committee meetings when appropriate. The Audit Committee has unrestricted access to the external auditors and will also meet with them without management in attendance.

The external auditors prepare an audit plan which details the scope, materiality, key areas of focus and the timetable for audit. This plan is reviewed and agreed in advance by the Audit Committee. Following the completion of the audit, the external auditors present their findings to the Audit Committee for discussion.

### Internal audit

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness, and the requirements for an internal audit function in the context of the Group's overall risk management system. The Audit Committee is satisfied that the Group does not currently require an internal audit function, however, it will continue to review the situation.

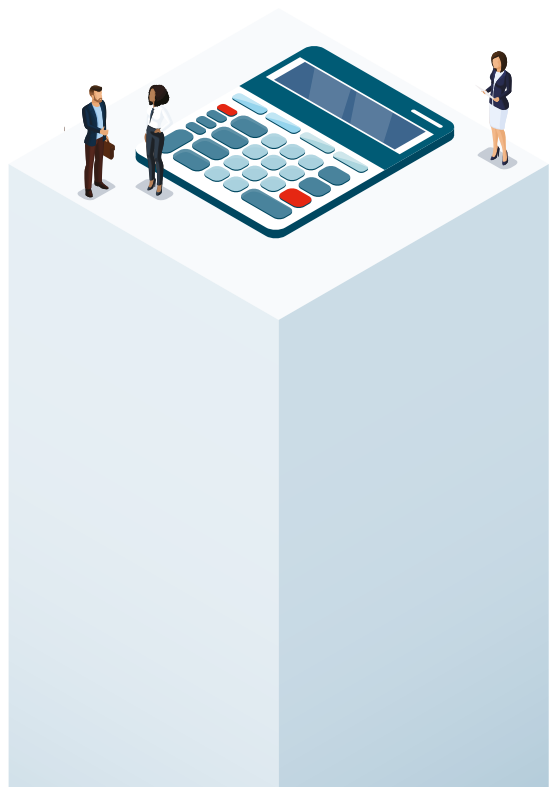
### Whistleblowing

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. During the year, there were no incidents for consideration.



### Graeme Bissett

Chair of the Audit Committee  
22 May 2023



## Nomination Committee Report

On behalf of the Board, I am pleased to present Calnex's Nomination Committee Report for the year ended 31 March 2023.

The Nomination Committee will regularly review the structure, size and composition of the Board and will also consider the selection and re-appointment of directors.

### Members of the Nomination Committee

The Nomination Committee is chaired by Stephen Davidson and has Graeme Bissett, Margaret Rice Jones, Helen Kelisky and Tommy Cook as members.



### Roles and responsibilities

The duties of the Nomination Committee are set out in its terms of reference, which are available on the Company's website. The Committee's duties include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, together with Board and senior management succession planning;
- recommending to the Board any changes required;
- identifying and nominating candidates to fill Board vacancies;
- reviewing the results of the Board performance evaluation process; and
- making recommendations to the Board concerning suitable candidates for the membership of the Board's Committees and the re-election of directors at the annual general meeting.

The Committee meets at least once a year and otherwise as required. It reports to the Board on how it has discharged its responsibilities. The members' attendance record at Committee meetings during the financial year is set out in the Corporate Governance report at page 49.

The Nomination Committee met on one occasion during the financial year ended 31 March 2023.

Activities in the year ended 31 March 2022 included:

- a review of the balance of skills, knowledge and experience of the Board together with the size, structure and composition of the Board; and
- Board and senior management succession planning, resulting in the appointment in January 2023 of an additional non-executive director of the Company, Helen Kelisky.

The Nomination Committee has a formal, rigorous and transparent procedure for the appointment of new directors to the Board. The process involves the Nomination Committee and Board interviewing suitable candidates who are proposed by an external search company. Careful consideration is given to ensure appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained.

**Stephen Davidson**  
Non-Executive Chair  
22 May 2023

## AIM Compliance Committee Report

On behalf of the Board, I am pleased to present Calnex's AIM Compliance Committee Report for the year ended 31 March 2023.

Calnex Solutions plc is quoted on AIM and as a result the AIM Compliance Committee is responsible for ensuring that the Company has in place at all times sufficient procedures, resources and controls to enable it to comply with the AIM Rules.



### Members of the AIM Compliance Committee

The AIM Compliance Committee is chaired by Graeme Bissett and has Stephen Davidson, Margaret Rice Jones, Helen Kelisky and Ashleigh Greenan as members.

### AIM Rule Compliance Report

The AIM Compliance Committee can confirm that the Group has complied with all of the Company's obligations under the AIM Rules, including AIM Rule 31 which requires the following:

- Have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- Seek advice from its Nominated Advisor ("Nomad") regarding its compliance with the AIM Rules whenever appropriate and take that advice into account;
- Provide the Company's Nomad with any information it reasonably requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Nominated Advisors, including any proposed changes to the Board and provision of draft notifications in advance;
- Ensure that each of the Group's directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and
- Ensure that each Director discloses without delay all information which the Group needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the Director.

### Meetings

The duties of the AIM Compliance Committee are set out in its terms of reference, which are available on the Company's website.

The Committee meets at least twice a year and otherwise as required. It reports to the Board on how it has discharged its responsibilities. The members' attendance record at Committee meetings during the year is set out in the Corporate Governance report at page 49.

The Committee met twice in the year to 31 March 2023.

A handwritten signature in black ink, appearing to read 'Graeme Bissett'.

### Graeme Bissett

Chair of the Audit Committee  
22 May 2023

## Directors' Report

The Directors present the Group's annual report and the audited consolidated financial statements for the year ended 31 March 2023.

### Principal activity

The principal activity of the Group is the design, production and marketing of test and measurement instrumentation and solutions, enabling its customers to validate the performance of critical infrastructure associated with telecoms networks, enterprise networks and data centres. A detailed explanation of the Group's principal activities and business model can be found in the Company Overview section at pages 1 to 5.

### Results and Dividends

The Group's profit for the year after tax was £5.9m (FY22: £4.5m).

The Company paid an interim dividend of 0.31 pence per ordinary share on 16 December 2022 to those shareholders on the register as at 1 December 2022 (FY22 Interim dividend: 0.28p).

The directors are proposing a final dividend with respect to the financial year ended 31 March 2023 of 0.62p per share. The final dividend will be proposed for approval at the Annual General Meeting in August 2023 and, if approved, will be paid on 30 August 2023 to all shareholders on the register as at close of business on 28 July 2023, the record date. The ex-dividend date will be 27 July 2023.

### Directors and their interests

The directors, who held office during the year ended 31 March 2023 and up to the date of approval of these financial statements, are as follows:

Director	Board title	Date of appointment
Stephen Davidson	Non-Executive Chair from 17 August 2022	10 January 2022
George Elliott	Non-Executive Chair up to 17 August 2022	1 October 2013, resigned 17 August 2022
Tommy Cook	Chief Executive Officer	27 March 2006
Ashleigh Greenan	Chief Financial Officer	15 May 2020
Graeme Bissett	Non-Executive Director	1 May 2020
Ann Budge	Non-Executive Director	1 April 2009, resigned 28 February 2023
Helen Kelisky	Non-Executive Director	17 January 2023
Margaret Rice-Jones	Non-Executive Director	10 January 2022

Biographical details of persons currently serving as directors are set out on pages 44 to 45. The directors who held office at 31 March 2023 had the following interests in the ordinary shares in the capital of the Company:

Director	Ordinary shares No.	Ordinary share options No.
Stephen Davidson	25,000	–
Tommy Cook	17,377,764	–
Ashleigh Greenan	170,000	500,000
Graeme Bissett	129,714	–

### Financial risk management objectives and policies

Details of the Group's financial risk management objectives and policies are set out in note 24 to the consolidated financial statements. The key non-financial risks that the directors consider could have a material impact on the business are set out on pages 34 to 39 of the Strategic Report.

### Research and development

The Group is highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets. Refer to the Market Overview section on pages 4 to 5 of the Strategic Report for more information. The total capitalised development expenditure for research and development in the year was £4.5m (FY22: £3.9m), and total amortisation was £3.3m in the year (FY22: £2.9m) in the consolidated income statement. Details of the Group's policy for the recognition of expenditure on research and development is set out in note 3 to the consolidated financial statements.

## Directors' Report continued

### Future Developments

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 34 to 39.

### Insurance for Directors and Officers

The Company has agreed to indemnify its directors against third party claims which may be brought against them and has put in place a Directors' and Officers' insurance policy.

### Substantial shareholdings

At 31 March 2023 the Company is aware of the following interests in 3% or more of the issued ordinary share capital in the Company:

Shareholder	Shares	% holding
Thomas (Tommy) Cook (CEO)	17,377,764	19.9%
BGF Investment Management Limited	10,428,372	11.9%
Close Brothers Group	8,324,204	9.5%
Scottish Enterprise	7,860,693	9.0%
JP Morgan Asset Mgt	3,276,965	3.7%
Sanford DeLand Asset Mgt	3,200,000	3.7%
Franklin Templeton Investments	2,800,000	3.2%
Hargreaves Lansdown Asset Mgt	2,664,523	3.0%

### Political Donations

In accordance with Group policy, no political donations have been made during the year ended 31 March 2023 (FY22: £nil).

### Share Capital

Details of the issued share capital, together with details of the movement in the Company's issued share capital during the year are shown in note 28 to the consolidated financial statements.

### Independent Auditor and disclosure of information to auditor

The directors confirm that each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Group and Parent Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

RSM UK Audit LLP were appointed as auditors on 18 September 2020 and have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

**Information incorporated by reference**

The Company Overview, Strategic Report and the Corporate Governance Report are incorporated by reference into this Directors' Report and should be read as part of this report.

The Company Overview and Strategic Report can be found on pages 2 to 43 and contain details of the Group's business model and strategic priorities. The purpose of the Strategic Report is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006. An indication of the likely future developments in the business of the Group is also included in the Strategic Report, which satisfies the reporting requirements of section 414C (11) of the Companies Act 2016.

**Going Concern**

The financial information for the year to 31 March 2023 has been prepared on the basis that the Company will continue as a going concern.

The Board has approved financial forecasts for the current and succeeding financial years to 31 March 2025. Based on this review, along with regular oversight of the Company's risk management framework the Board has concluded that given the Company's cash reserves available and access to additional liquidity through banking facilities the Company will continue to trade as a going concern.

Approved by the Board of Directors on 22 May 2023 and signed on its behalf below.  
By order of the Board.

**Ashleigh Greenan**

Chief Financial Officer and Company Secretary  
22 May 2023

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors have elected under company law and are required by the AIM Rules of the London Stock Exchange to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards and have elected under company law to prepare the Company financial statements in accordance with UK-adopted International Accounting Standards and applicable law.

The Group and Company financial statements are required by law and UK-adopted International Accounting Standards to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 each of the Group and Company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Calnex Solutions plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board.



**Ashleigh Greenan**  
Chief Financial Officer and Company Secretary  
22 May 2023



## Independent Auditor's Report to the Members of Calnex Solutions plc

### Opinion

We have audited the financial statements of Calnex Solutions plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2023 which comprise consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company cash flow statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities 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.

### Summary of our audit approach

<b>Key audit matters</b>	<b>Group and Parent</b> <ul style="list-style-type: none"> <li>• Valuation and existence of intangible assets – development costs</li> </ul>
<b>Materiality</b>	<b>Group</b> <ul style="list-style-type: none"> <li>• Overall materiality: £564,000 (2022: £455,000)</li> <li>• Performance materiality: £423,000 (2022: 341,000)</li> </ul> <b>Parent Company</b> <ul style="list-style-type: none"> <li>• Overall materiality: £544,000 (2022: £453,000)</li> <li>• Performance materiality: £408,000 (2022: £339,000)</li> </ul>
<b>Scope</b>	Our audit procedures covered 97% of revenue, 99.7% of total assets and 98% of profit before tax.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor's Report to the Members of Calnex Solutions plc continued

### Valuation and existence of intangible assets – development costs

<b>Key audit matter description</b>	<p>We identified the valuation and existence of development costs as a key audit matter due to the significant management judgement required around the capitalisation of costs in line with IAS 38 – Intangible Assets and the subsequent commercialisation lifecycle and related amortisation period.</p> <p>The Group conducts a significant amount of development activity and has to identify projects meeting the IAS 38 criteria for capitalisation, and capture the specific costs associated with those projects. Management then have to identify an appropriate amortisation period, which aligns with the benefits derived from the development activity, again, requiring judgement and estimation.</p> <p>As disclosed in note 12, £4,523k of cost was capitalised in this regard in the year, amortisation of £3,315k was charged and the net book value as at 31 March 2023 was £8,314k.</p>
<b>How the matter was addressed in the audit</b>	<p>Our procedures in relation to the valuation and existence of development costs, held within Intangible Assets, included:</p> <ul style="list-style-type: none"> <li>• Understanding and documenting management's procedures over the capitalisation of development costs</li> <li>• Assessing the nature of costs capitalised</li> <li>• Evaluating the appropriateness of costs capitalised, on a sample basis, by agreeing costs to supporting documentation including external invoices and payroll records</li> <li>• Assessing whether costs may have been capitalised in respect of aborted projects or projects which are no longer revenue generative and considering the implications on gross and net book value</li> <li>• Evaluating the amortisation period applied and its appropriateness in respect of the historic and future product lifecycle</li> </ul>

### Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
<b>Overall materiality</b>	£564,000 (2022: £455,000)	£544,000 (2022: £453,000)
<b>Basis for determining overall materiality</b>	5% of Earnings before interest, tax, depreciation and amortisation	5% of Earnings before interest, tax, depreciation and amortisation
<b>Rationale for benchmark applied</b>	EBITDA was used as a benchmark, as it was assessed that the shareholders' will be primarily interested in the group and parent company's ability to generate operating cashflows from which to pay future dividends.	
<b>Performance materiality</b>	£423,000 (2022: 341,000)	£408,000 (2022: £339,000)
<b>Basis for determining performance materiality</b>	75% of overall materiality	75% of overall materiality
<b>Reporting of misstatements to the Audit Committee</b>	Misstatements in excess of £28,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £27,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

### An overview of the scope of our audit

The group consists of 3 components, located in the United Kingdom and United States of America.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	1	97%	99.0%	83%
Specific audit procedures	2	0%	0.7%	15%
<b>Total</b>	<b>3</b>	<b>97%</b>	<b>99.7%</b>	<b>98%</b>

There were no audit procedures undertaken by component auditors.

### 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. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- checking the integrity and accuracy of the cashflow forecasts prepared by management;
- assessing the reasonableness of assumptions and explanations provided by management to supporting information, where available; and
- auditing the accuracy and consistency of disclosures made in the financial statements in respect of principal risks and going concern.

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 group's or the parent 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.

### 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.

## Independent Auditor's Report to the Members of Calnex Solutions plc continued

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

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 66, 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 group's and the parent 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 group or the parent 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.

### The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operates in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
<b>IFRS; Companies Act 2006; and AIM listing rules</b>	<ul style="list-style-type: none"> <li>• Review of the financial statement disclosures and testing to supporting documentation; and</li> <li>• Completion of disclosure checklists to identify areas of non-compliance.</li> </ul>
<b>Tax compliance regulations</b>	<ul style="list-style-type: none"> <li>• Inspection of advice received from external tax advisors and review of the corporation tax computation; and</li> <li>• Consideration of disclosures in the financial statements.</li> </ul>

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>• Performing data analytics on sales in the year and testing exceptions out with the normal expected sales cycle;</li> <li>• Substantively testing the cut off and completeness of revenue transactions;</li> <li>• Reperforming the deferred income calculation and substantively testing the year end deferred balance; and</li> <li>• Considering the appropriateness of revenue recognition policies and assessing their compliance with IFRS 15.</li> </ul>
<b>Management override of controls</b>	<ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries and other adjustments;</li> <li>• Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and</li> <li>• Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.</li> </ul>

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### 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.

*Alan Aitchison*

### ALAN AITCHISON (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor  
Chartered Accountants  
Third Floor, Centenary House  
69 Wellington Street  
Glasgow  
G2 6HG

22 May 2023

## Consolidated Statement of Comprehensive Income

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
<b>Revenue</b>	5	<b>27,449</b>	22,046
Cost of sales		<b>(6,977)</b>	(5,518)
<b>Gross profit</b>		<b>20,472</b>	16,528
Other income	6	<b>751</b>	648
Administrative expenses		<b>(13,989)</b>	(11,183)
<b>Operating profit</b>		<b>7,234</b>	5,993
Finance costs	10	<b>(26)</b>	(20)
<b>Profit before taxation</b>		<b>7,208</b>	5,973
Taxation	11	<b>(1,297)</b>	(1,433)
<b>Profit and total comprehensive income for the year</b>		<b>5,911</b>	4,540
Basic earnings per share	29	<b>6.75</b>	5.19
Diluted earnings per share	29	<b>6.42</b>	5.00

## Consolidated Statement of Financial Position

	Note	Group		Company	
		31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
<b>Non-current assets</b>					
Intangible assets	12	10,565	8,424	9,525	8,424
Goodwill	13, 14	2,000	–	–	–
Plant and equipment	15	404	274	404	274
Right-of-use assets	21	533	791	533	791
Deferred tax asset	22	272	304	272	304
		<b>13,774</b>	9,793	<b>10,734</b>	9,793
<b>Current assets</b>					
Inventories	16	2,748	998	2,748	998
Trade and other receivables	17	3,130	4,997	3,455	5,197
Cash and cash equivalents	18	17,583	13,857	17,186	13,592
Short term investment	18	1,515	1,500	1,515	1,500
		<b>24,976</b>	21,352	<b>24,904</b>	21,287
<b>Total assets</b>		<b>38,750</b>	31,145	<b>35,638</b>	31,080
<b>Current liabilities</b>					
Trade and other payables	20	5,988	5,569	5,806	5,549
Corporation tax		843	–	741	–
Lease liabilities	21	260	193	260	193
Provisions	23	–	141	–	141
		<b>7,091</b>	5,903	<b>6,807</b>	5,883
<b>Non-current liabilities</b>					
Trade and other payables	20	1,396	718	1,356	718
Lease liabilities	21	431	664	431	664
Deferred tax liabilities	22	2,457	2,017	2,197	2,017
Provisions	23	15	15	15	15
		<b>4,299</b>	3,414	<b>3,999</b>	3,414
<b>Total liabilities</b>		<b>11,390</b>	9,317	<b>10,806</b>	9,297
<b>Net assets</b>		<b>27,360</b>	21,828	<b>24,832</b>	21,783
<b>Equity</b>					
Share capital	28	109	109	109	109
Share premium		7,495	7,484	7,495	7,484
Share option reserve	26	873	502	873	502
Retained earnings		18,883	13,733	16,355	13,688
<b>Total equity</b>		<b>27,360</b>	21,828	<b>24,832</b>	21,783

The profit for the financial year of the parent company is £3,428,306 (2022: £4,480,757). As provided for by section 408 of the Companies Act 2006, no income statement is presented in respect of the parent company.

The accounts were approved by the Board of Directors and authorised for issue on 22 May 2023. The accounts are signed on their behalf by:



**Ashleigh Greenan**  
Director  
22 May 2023



## Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 31 March 2021</b>	<b>109</b>	<b>7,484</b>	<b>126</b>	<b>9,438</b>	<b>17,157</b>
<i>Transactions with owner in their capacity as owners</i>					
Share options	–	–	376	–	376
Dividends paid	–	–	–	(245)	(245)
			376	(245)	131
Total comprehensive income for the year	–	–	–	4,540	4,540
<b>Balance at 31 March 2022</b>	<b>109</b>	<b>7,484</b>	<b>502</b>	<b>13,733</b>	<b>21,828</b>
<i>Transactions with owner in their capacity as owners</i>					
Share options exercised	0	11	–	–	11
Share options	–	–	371	–	371
Dividends paid	–	–	–	(761)	(761)
	0	11	371	(761)	(379)
Total comprehensive income for the year	–	–	–	5,911	5,911
<b>Balance at 31 March 2023</b>	<b>109</b>	<b>7,495</b>	<b>873</b>	<b>18,883</b>	<b>27,360</b>

## Company Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 31 March 2021</b>	<b>109</b>	<b>7,484</b>	<b>126</b>	<b>9,452</b>	<b>17,171</b>
<i>Transactions with owner in their capacity as owners</i>					
Share options	–	–	376	–	376
Dividends paid		–	–	(245)	(245)
			376	(245)	131
Total comprehensive income for the year	–	–	–	4,481	4,481
<b>Balance at 31 March 2022</b>	<b>109</b>	<b>7,484</b>	<b>502</b>	<b>13,688</b>	<b>21,783</b>
<i>Transactions with owner in their capacity as owners</i>					
Share options exercised	0	11	–	–	11
Share options	–	–	371	–	371
Dividends paid	–	–	–	(761)	(761)
	0	11	371	(761)	(379)
Total comprehensive income for the year	–	–	–	3,428	3,428
<b>Balance at 31 March 2023</b>	<b>109</b>	<b>7,495</b>	<b>873</b>	<b>16,355</b>	<b>24,832</b>

## Consolidated and Company Cash Flow Statement

	<i>Group</i>		<i>Company</i>	
	31 March 2023 £'000	31 March 2022 £'000	31 March 2023 £'000	31 March 2022 £'000
<b>Cashflows from operating activities</b>				
Profit before tax from continuing operations	7,208	5,973	4,459	5,872
<i>Adjusted for:</i>				
Finance costs	26	20	26	20
Interest received	(160)	–	(160)	–
Government grant income	(201)	(197)	(201)	(197)
R&D tax credit income	(390)	(457)	(390)	(457)
Movement in provisions	–	(150)	–	(150)
Share-based payment transactions	574	262	574	262
Depreciation	371	252	371	252
Amortisation	3,690	3,014	3,422	3,014
Impairment of investment	–	–	2,436	–
Movement in inventories	(1,554)	(38)	(1,557)	(38)
Movement in obsolescence provision	(122)	150	(122)	150
Movement in trade and other receivables	1,619	(2,815)	1,484	(2,567)
Movement in trade and other payables	(329)	1,129	(770)	1,108
Cash generated from operations	10,732	7,143	9,572	7,269
Movement in provisions (overseas tax)	(140)	–	(140)	–
Corporation & foreign tax payments	(70)	–	–	–
R&D tax credit refunds received	589	207	589	207
<b>Net cash from operating activities</b>	<b>11,111</b>	<b>7,350</b>	<b>10,021</b>	<b>7,476</b>
<b>Investing activities</b>				
Purchase of intangible assets	(4,523)	(3,913)	(4,523)	(3,913)
Purchase of property and equipment	(181)	(300)	(181)	(300)
Purchase of subsidiary: net of cash acquired	(2,263)	–	(2,263)	–
Distribution from subsidiary from pre-acquisition reserves	–	–	767	–
Dividend received from subsidiary of post-acquisition reserves	–	–	191	–
Short term investment: fixed term deposit	(15)	(1,500)	(15)	(1,500)
Interest received	160	–	160	–
<b>Net cash used in investing activities</b>	<b>(6,822)</b>	<b>(5,713)</b>	<b>(5,864)</b>	<b>(5,713)</b>
<b>Financing activities</b>				
Payment of lease obligations	(245)	(203)	(245)	(203)
Dividends paid	(761)	(245)	(761)	(245)
Share options proceeds	11	–	11	–
Government grant income	432	–	432	–
<b>Net cash from financing activities</b>	<b>(563)</b>	<b>(448)</b>	<b>(563)</b>	<b>(448)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,726</b>	<b>1,189</b>	<b>3,594</b>	<b>1,315</b>
Cash and cash equivalents at beginning of the year	13,857	12,668	13,592	12,277
<b>Cash and cash equivalents at end of the year</b>	<b>17,583</b>	<b>13,857</b>	<b>17,186</b>	<b>13,592</b>

## Notes to the Financial Statements

### 1 General information

Calnex Solutions plc ("the Company") is a public limited company domiciled and incorporated in Scotland. The registered office is Oracle Campus, Linlithgow, West Lothian, EH49 7LR.

The Company (together with its subsidiary, the "Group") was under the control of the directors throughout the period covered in the financial statements. The list of the subsidiaries consolidated in the financial statements is shown in Note 27.

The principal activity of the Group is the design, production and marketing of test instrumentation and solutions for network synchronisation and network emulation, enabling its customers to validate the performance of critical infrastructure associated with telecoms networks, enterprise networks and data centres.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 May 2023. The directors have the power to amend and reissue the financial statements.

### 2 Basis of preparation

#### (a) Statement of compliance

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

#### (b) Basis of accounting

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities including financial instruments, which are stated at their fair values.

The preparation of the financial statements in conformity with UK-adopted IAS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented.

#### (c) Functional and presentation currency

The financial statements are presented in pounds Sterling, which is the functional and presentation currency of the Group. Results in these financial statements have been prepared to the nearest thousand.

#### (d) Basis of consolidation

The consolidated financial statements incorporate those of Calnex Solutions plc, and all its subsidiaries. A subsidiary is an entity controlled by the Group, i.e. the Group is exposed to, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its current ability to direct the entity's relevant activities (power over the investee). All intra-Group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The total comprehensive income, assets and liabilities of the entities are amended, where necessary, to align the accounting policies.

The Group applies the acquisition method to account for all acquired businesses, whereby the identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (with a few exceptions as required by IFRS 3 Business Combinations).

The cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

The acquisition of assets that falls outside the scope of IFRS 3 are accounted for by bringing the assets and liabilities of the acquired entity into the financial statements at their nominal value from the date of acquisition. Comparative information is not restated.

## Notes to the Financial Statements continued

### 2 Basis of preparation continued

#### (e) Going Concern

The financial information for the year to 31 March 2023 has been prepared on the basis that the Company will continue as a going concern.

The Board has approved financial forecasts for the current and succeeding financial period to 31 March 2025. Based on this review, along with regular oversight of the Company's risk management framework, the Board has concluded that given the Company's cash reserves available and access to additional liquidity through banking facilities the Company will continue to trade as a going concern.

### 3 Significant accounting policies

#### (a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes and discounts and is recognised at the point in time when the relevant performance obligation is satisfied.

Where revenue contracts have multiple elements, all aspects of the transaction are considered to determine whether these elements can be separately identified. Where transaction elements can be separately identified and revenue can be allocated between them on a fair and reliable basis, revenue for each element is accounted for according to the relevant policy below. Where transaction elements cannot be separately identified, revenue is recognised over the contract period.

The Group recognises revenue from the following major sources:

#### Hardware & software revenue

Revenue from the sale of bundled hardware and software, is recognised when the Group transfers the risk and rewards to the customer. Each unit sold comes with a standard warranty period during which the Group agrees to provide warranty cover, maintenance cover and software upgrade cover in the event of any software upgrades being released. This is recognised as a separately identifiable obligation from the provision of the hardware and is recognised over the life of the cover provided, being a year.

For the sale of stand-alone software, the licence period and therefore the revenue recognition, commences upon delivery.

#### Extended warranty programme

The Group enters into agreements with purchasers of its equipment to perform necessary repairs falling outside the Group's standard warranty period. As this service involves an indeterminate number of acts, the Group is required to 'stand ready' to perform whenever a request falling within the scope of the program is made by a customer. Revenue is recognised on a straight-line basis over the term of the contract.

#### This method best depicts the transfer of services to the customer as:

- i) The Group's historical experience demonstrates no statistically significant variation in the quantum of services provided in each year of a multi-year contract; and
- ii) no reliable prediction can be made as to if and when any individual customer will require service.

#### Software support programme

The Group enters into agreements with purchasers of its equipment to provide software support and access to future software updates. Revenue is recognised on a straight-line basis over the term of the contract.

### 3 Significant accounting policies continued

#### Grant income

The Group obtains grant funding from the Scottish Government in the form of reimbursement for research and development costs eligible for reclaim under the grant agreement. Costs are incurred before they can be reclaimed under the grant agreement and revenue is only recognised after receipt of the funds from the government. Grant funds received are recognised over five years, in line with the amortisation policy on capitalised research and development costs.

#### (b) Retirement benefit costs

Payments to defined contribution schemes are charged to the Statement of Comprehensive Income as an expense as they fall due.

#### (c) Share-based payments

Equity-settled and cash settled share-based compensation benefits are provided to some employees. Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. There are no other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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 dealt with in equity.

Deferred tax assets and liabilities are offset when the relevant requirements of IAS 12 are satisfied.

## Notes to the Financial Statements continued

### 3 Significant accounting policies continued

#### (d) Taxation

The tax expense represents the sum of the current tax and deferred tax charge for the year. The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, as used in the computation of taxable profit, and is accounted for using the balance sheet 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of financial assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

#### (e) Business Combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the Group to former owners of the acquirer. All acquisition costs are expensed as incurred to profit or loss. On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss.

The difference between the acquisition-date fair value of assets acquired and liabilities assumed and the fair value of the consideration transferred is recognised as goodwill. If the consideration transferred is less than the fair value of the identifiable net assets acquired, a bargain purchase is recognised as a gain directly in profit or loss by the Group on the acquisition-date.

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

#### (f) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years. Amortisation is charged to administrative expenses in the Statement of Comprehensive Income.



### 3 Significant accounting policies continued

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

#### (g) Financial assets

Where there is no publicly quoted market value, other investments, including subsidiaries, are shown at cost less provisions for impairment.

#### (h) Plant and equipment

Plant and equipment are shown at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at varying rates calculated to write off cost less residual value over the useful lives. Depreciation is charged to administrative expenses in the Statement of Comprehensive Income. The principal rates employed are:

Plant and machinery	25-33% straight line
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The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate these values may not be recoverable. If there is an indication that impairment does exist, the carrying values are compared to the estimated recoverable amounts of the assets concerned.

The recoverable amount is the greater of an asset's value in use and its fair value less the cost of selling it. Value in use is calculated by discounting the future cash flows expected to be derived from the asset. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down through the income statement to its recoverable amount.

An item of property, plant and equipment is written off either on disposal or when there is no expected future economic benefit from its continued use. Any gain or loss (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the income statement in the year.

#### (i) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

#### (j) Inventories

Inventories are valued at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods for resale, the average purchase price is used. For work in progress and finished goods, cost is taken as production cost which includes an appropriate proportion of overheads.

Inventories are assessed for indicators of impairment at each year end and where a provision is required the income statement is charged directly.

#### (k) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

## Notes to the Financial Statements continued

### 3 Significant accounting policies continued

The simplified approach to measuring expected credit losses has been applied, this uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

#### (l) Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of 95 days or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### (m) Short term investments

Cash at bank on fixed term deposit, and other liquid investments with maturities of greater than 95 days, but less than 12 months at the reporting date.

#### (n) Borrowings

Interest-bearing loans and bank overdrafts are initially recorded at the fair value of proceeds received and are subsequently stated at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### (o) Trade and other payables

Trade payables are non-interest-bearing and are measured at amortised cost.

#### (p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

#### (q) Financial liabilities

Financial liabilities are recognised on the Group's Statement of financial position when the Group becomes a party to the contractual provisions of that instrument.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The changes in fair value are recorded in the statement of comprehensive income.

#### (r) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The lease term is the non-cancellable period of the lease plus extension periods that the group is reasonably certain to exercise and termination periods that the group is reasonably certain not to exercise. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are re-measured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is re-measured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

### 3 Significant accounting policies continued

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

#### (s) Foreign currency

In preparing the financial statements, transactions in currencies other than pounds sterling are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognised in the consolidated Statement of comprehensive income for the period.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the rates prevailing at the dates when the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency (e.g. property, plant and equipment purchased in a foreign currency) are translated using the exchange rate prevailing at the date of the transaction. Exchange differences arising on the translation of net assets are affected through the Statement of Comprehensive Income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period and recognised in the Statement of Comprehensive Income.

#### (t) Dividends

Dividends are recognised when declared during the financial year. The declaration of dividends is at the discretion of the directors.

#### (u) Value Added Tax

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the tax authority.

#### (v) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### (w) Critical judgements in applying the Groups accounting estimates

In the process of applying the Group's accounting policies, the directors have made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

## Notes to the Financial Statements continued

### 3 Significant accounting policies continued

#### (w) Critical judgements in applying the Groups accounting estimates (continued)

##### Useful lives

The Group uses forecast cash flow information and estimates of future growth to assess whether goodwill and other intangible fixed assets are impaired, and to determine the useful economic lives of its goodwill and intangible assets. If the results of operations in a future period are adverse to the estimates used a reduction in useful economic life may be required.

##### Intangible assets acquired through business combination

Where Intangible assets are acquired through business combination for which no active market for the asset exists, fair value is determined by discounting estimated future net cashflows generated by the asset. Estimates relating to the future cashflows and discount rates used may have a material effect on the reported amounts of finite lived intangible assets.

#### (x) New accounting standards

There have been no applicable new standards, amendments to standards and interpretations effective from 1 April 2023 that have been applied by the Group which have resulted in a significant impact on its consolidated results or financial position.

### 4 Operating Segments

Operating segments are based on the internal reports that are reviewed and used by the Board (who are identified as the Chief Operating Decision Makers) in assessing performance and determining the allocation of resources. As the Group has a central cost structure and a central pool of assets and liabilities, the Board does not consider segmentation in their review of costs or the statement of financial position. The only operating segment information reviewed, and therefore disclosed, are the revenues derived from different geographies.

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Americas	9,644	7,066
North Asia	6,475	6,780
Rest of World	11,330	8,200
	<b>27,449</b>	22,046

### 5 Revenue

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Sale of goods	24,579	20,040
Rendering of services	2,870	2,006
Total revenue	<b>27,449</b>	22,046

69% (2022: 76%) of the Group order intake has been generated through the network of the Group's principal distribution partner. Included within orders there are no customers which exceed 10% of the Group's orders (2022: £3,656,051 from one customer exceeded 10% of Group orders).

**6 Other income**

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Government grant income	201	191
R&D tax credit	390	457
Interest received	160	–
	<b>751</b>	<b>648</b>

**7 Material operating profit items**

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Operating profit for the year is stated after charging/(crediting):		
Share-based payments	574	262
Legal and professional fees associated with acquisition of subsidiary	200	–
Depreciation of tangible and ROU assets	371	252
Amortisation of intangible assets	3,690	3,014
<b>Auditor's remuneration</b>		
Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts	44	44
<b>Total fees payable for audit services</b>	<b>44</b>	<b>44</b>
Fees payable to the Group's auditor and its associates for other services:		
Audit related services	–	2
Tax related services	–	–
Other services	–	–
<b>Total fees payable to the Group's auditor and its associates</b>	<b>44</b>	<b>46</b>

**8 Employee benefits costs****Average monthly number of employees**

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Development staff	70	64
Administrative staff	68	42
Management staff	11	10
	<b>149</b>	<b>116</b>

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Employee costs during the year (including directors remuneration) amounted to:		
Wages and salaries	8,560	7,694
Social security costs	875	630
Defined contribution pension	418	251
Share incentive scheme	233	210
Equity-settled share-based payment	531	249
Cash-settled share-based payment	43	13
	<b>10,660</b>	<b>9,047</b>
Total gross wages and salaries capitalised in the year, included in the analysis above	<b>3,837</b>	<b>3,138</b>

## Notes to the Financial Statements continued

**9 Key management personnel emoluments**

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Wages and salaries	636	638
Social security costs	100	67
Defined contribution pension	7	6
Equity-settled share-based payment	29	29
	<b>772</b>	<b>740</b>
The number of directors who accrued benefits under the company pension plans:		
Defined contribution plans	<b>1</b>	<b>1</b>
Remuneration of the highest paid director in respect of qualifying services:		
Aggregate remuneration	<b>237</b>	<b>255</b>

Key management refers to the directors of the Group.

**10 Finance costs**

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Interest expense on lease liabilities	26	20

**11 Taxation**

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
<b>Current taxation</b>		
UK corporation tax on profits for the year	1,143	373
Foreign current tax expense	149	46
Adjustments relating to prior years	(4)	(120)
	<b>1,288</b>	<b>299</b>
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	(46)	799
Adjustments relating to prior periods	–	(46)
Effect of changes in tax rates	55	381
	<b>9</b>	<b>1,134</b>
<b>Total taxation charge</b>	<b>1,297</b>	<b>1,433</b>

**11 Taxation** continued

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Profit before tax for the year	7,208	5,973
Tax thereon at 19%	1,369	1,134
Effects of:		
Expenses disallowable for tax purposes	40	67
Adjustments in respect of prior periods – current tax	(4)	(120)
Adjustments in respect of prior periods – deferred tax	–	(46)
Change in tax rate on opening balance	55	381
SME R&D credit	(161)	(9)
Timing differences not recognised in the computation	19	–
Impact of super deduction	(10)	(20)
Deferred tax (charged)/credited directly to equity	(160)	–
Overseas tax	149	46
<b>Taxation charge</b>	<b>1,297</b>	<b>1,433</b>

The weighted average applicable tax rate for the year ended 31 March 2023 was 19% (2022: 19%). The effective rate of tax for the year, based on the taxation charge for the year as a percentage of the profit before tax is 18% (2022: 24.0%) The (1.0) percentage point difference between the applicable rate of tax and the effective rate is largely due to the following:

- Availability of enhanced 130% SME R&D deduction
- Overseas taxes

The 2021 budget proposal increases the corporation tax rate to 25% from 1 April 2023. This was substantively enacted in the Finance Act 2021 on 24 May 2021.

**12 Intangible assets**

Included within intangible assets are the following significant items:

- Cost of patent applications and on-going patent maintenance fees.
- Acquired intellectual property from business combinations.
- Capitalised development costs representing expenditure relating to technological advancements on the core product base of the Group. These costs meet the requirement of IAS 38 (Intangible Assets) and will be amortised over the future commercial life of the related product. Amortisation is charged to administrative expenses.

	Intellectual property £'000	Development Costs £'000	Group Total £'000
<b>Cost</b>			
At 1 April 2022	2,224	27,238	29,462
Additions	–	4,523	4,523
Acquired through business combination	1,308	–	1,308
Disposals	(6)	(1,366)	(1,372)
<b>At 31 March 2023</b>	<b>3,526</b>	<b>30,395</b>	<b>33,921</b>
<b>Amortisation</b>			
At 1 April 2022	2,114	18,924	21,038
Charge for the year	375	3,315	3,690
Eliminated on disposal	(6)	(1,366)	(1,372)
<b>At 31 March 2023</b>	<b>2,483</b>	<b>20,873</b>	<b>23,356</b>
<b>Net book value</b>			
<b>31 March 2022</b>	<b>110</b>	<b>8,314</b>	<b>8,424</b>
<b>31 March 2023</b>	<b>1,043</b>	<b>9,522</b>	<b>10,565</b>



## Notes to the Financial Statements continued

## 12 Intangible assets continued

	Intellectual property £'000	Development Costs £'000	Company Total £'000
<b>Cost</b>			
At 1 April 2022	2,224	27,238	29,462
Additions	–	4,523	4,523
Disposals	(6)	(1,366)	(1,372)
<b>At 31 March 2023</b>	<b>2,218</b>	<b>30,395</b>	<b>32,613</b>
<b>Amortisation</b>			
At 1 April 2022	2,114	18,924	21,038
Charge for the year	107	3,315	3,422
Eliminated on disposal	(6)	(1,366)	(1,372)
<b>At 31 March 2023</b>	<b>2,215</b>	<b>20,873</b>	<b>23,088</b>
<b>Net book value</b>			
<b>31 March 2022</b>	110	8,314	8,424
<b>31 March 2023</b>	<b>3</b>	<b>9,522</b>	<b>9,525</b>

During the year, a review of the carried development costs brought forward has resulted in a disposal of £1,365,530, and elimination of amortisation of £1,365,530 resulting in a net book value impact of £nil. This reflects removal of aged spend on product features that are now considered to be superseded by current product developments.

Within Group intellectual property, additions of £1,308,000 are included relating to the fair value assessment of intellectual property on the NE-ONE product range resulting from the business combination of iTrinegy. This intellectual property addition has also resulted in £267,970 of amortisation being charged to administration expenses in the year. Details of the business combination are included in note 13.

## 13 Business combinations

On 12 April 2022, Calnex Solutions plc acquired 100 per cent of the issued share capital of iTrinegy Ltd, a leading developer of Software Defined Test Networks technology for the software application and digital transformation testing market. The core product, the NE-ONE hardware and software based Network Emulation platforms, provide organisations, primarily across the technology, financial, gaming and military/government sectors, with the ability to accurately recreate complex, real-world network test environments in which to analyse and verify the performance of applications, before deployment. The NE-ONE platform, provides users with insight which enables them to reduce deployment costs and risk, whilst also addressing the needs of the cloud-based and virtual development environments, a rapidly growing sub-sector of the application development market.

This acquisition was made on a cash free, debt free basis, for an initial cash consideration of £2.5 million, fully funded from Group free cash. An additional £0.5 million was also paid to the vendors in exchange for them leaving all available cash (£0.7m at acquisition date) within the acquired business. Up to a further £1 million consideration is potentially payable subject to the achievement of revenue growth from the NE-ONE product line in the year ended 31 March 2024 (the 'Earn-Out Payment'). This Earn-Out Payment will be realised as a combination of cash and new ordinary shares issued in Calnex Solutions plc. The maximum number of new ordinary shares that may be issued as a result of the Earn-Out Payment targets being met in full is 322,579.

The Earn-Out Payment in relation to those iTrinegy vendors who have remained as employees of the new Group has been treated as remuneration, with the fair value expensed to the income statement. The share-based element of the Earn-Out Payment has been measured at fair value as at grant date, whilst the cash element of the Earn-Out Payment will be fair value assessed at each reporting date, consistent with IFRS 2 Share-based Payment. This results in a charge of £0.3m related to post acquisition service, and this will be charged to the Income Statement over the vesting period. In the current year, £0.1m has been charged to administrative expenses within the Income Statement.

£0.2m of acquisition related expenses for legal and professional fees, as well as £0.3m amortisation of acquired intangible assets have been charged to administrative expenses in the period.

**13 Business combinations** continued

The fair values of the identifiable net assets are set out below:

	Book value £'000	Fair value Adjustment £'000	Fair value £'000
Intangible assets	–	1,308	1,308
Deferred tax liability	–	(311)	(311)
Plant & equipment	8	–	8
Cash and cash equivalents	737	–	737
Trade and other receivables	397	–	397
Inventories	74	–	74
Trade and other payables	(1,010)	–	(1,010)
<b>Total identifiable assets</b>	<b>206</b>	<b>997</b>	<b>1,203</b>
Goodwill on acquisition			2,000
<b>Total consideration</b>			<b>3,203</b>
<b>Satisfied by:</b>			
Initial cash consideration			3,000
Contingent consideration			203
			<b>3,203</b>
<b>Cashflow</b>			
Initial cash consideration			3,000
Cash acquired			(737)
Net cashflow impact of acquisition			<b>2,263</b>

The fair value adjustment noted above has been derived from the valuation of the intellectual property associated with acquired technology, and customer relationships. These intangible assets have been assigned a useful life of between three and five years.

The book value of all other assets and liabilities recognised at acquisition date have been determined to approximate their fair value. Trade and other receivables acquired were mainly trade receivables, of which no recovery issues were identified post-acquisition.

The values identified in relation to the acquisition of iTrinegy are final as at 31 March 2023.

The acquired business contributed revenues of £1.3m and profit after tax of £0.2m profit for the period 12 April 2022 to 31 March 2023. If the acquisition had occurred on 1 April 2022 the full year contributions to revenue and profit after tax would have been £1.3m and £0.2m profit after tax. The proximity of the acquisition date to the beginning of the financial year resulted in a significant amount of the acquired business transactions for financial year being captured post acquisition.

The directors have reviewed the £2.0m goodwill valuation and are comfortable it benchmarks consistently with similar acquisitions within the sector. Goodwill carried reflects the inherent value of an accelerated R&D development timeline to address the network emulation market with the NE-ONE product, coupled with significant cost and sales channel synergies the group will be able to leverage from its more mature organisational and sales structure. Goodwill also includes intangible assets not qualifying for separate recognition, such as workforce in place.

The goodwill is not expected to be deductible for tax purposes.

As part of the integration of the iTrinegy business, the Group has transferred all iTrinegy staff and trading over to Calnex Solutions plc, with the iTrinegy legal entities being 'hived up' into the existing Calnex entities. Details of the group structure changes in the year are detailed in note 27.

## Notes to the Financial Statements continued

### 14 Goodwill

The goodwill arising in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from the business combination. The Board consider the Group to consist of a single cash generating unit, reflective of not only the manner in which the Board (who operate as the Chief Operating Decision Makers) assess and review performance and resource allocation of the group, but also the centralised cost structure and pooled assets and liabilities which are critical to revenue generation across all platforms. The determination of a single cash generating unit within the group therefore reflects accurately the way the Group manages its operations and with which goodwill would naturally be associated.

	<i>Group</i> 31 March 2023 £'000
<b>Cost</b>	
As at 1 April 2022	–
Acquisitions (note 13)	2,000
<b>As at 31 March 2023</b>	<b>2,000</b>

Goodwill of £2,000,000 has been recognised in the Group in the year, following the acquisition of iTrinegy Ltd.

The Group test goodwill for impairment annually, or more frequently if there are indications that the goodwill has been impaired. Goodwill is tested for impairment by comparing the carrying amount of the cash generating unit, including goodwill, with the recoverable amount. The recoverable amounts are determined based on value-in-use calculations which require assumptions. The calculations use cashflow projections based on financial budgets approved by the Board covering a two year period, together with management forecasts for a further three year period. These budgets and forecasts have regard to historical financial performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cashflows. Cashflows beyond this are extrapolated using estimated growth rates.

Key assumptions used in the value in use calculation:

- The terminal cash flows are extrapolated in perpetuity using a growth rate of 2%, which has been based on management judgement reflecting sector and industry experience. This is not considered to be higher than the average long-term industry growth rate.
- The discount rate is based on the weighted average cost of capital (WACC) of 11.7%, which would be anticipated for a market participant investing in the Group.

Management has performed sensitivity analysis on the key assumptions both with other variables held constant and with the other variables simultaneously changed. Management has concluded that there are no reasonable changes in the key assumptions that would cause the carrying amount of goodwill to exceed the value in use for the cash generating unit.

No evidence of impairment was found at balance sheet date.

## 15 Plant and equipment

The Group annually reviews the carrying value of tangible fixed assets taking recognition of the expected working lives of the plant and equipment available to the Group and known requirements. Depreciation is charged to administrative expenses.

	<i>Group</i>	<i>Company</i>
	Plant and equipment Total £'000	Plant and equipment Total £'000
<b>Cost</b>		
At 1 April 2022	335	335
Additions	235	235
Acquired through business combination	8	8
Disposals	(8)	(8)
<b>At 31 March 2023</b>	<b>570</b>	<b>570</b>
<b>Depreciation</b>		
At 1 April 2022	61	61
Charge for the year	113	113
Eliminated on disposal	(8)	(8)
<b>At 31 March 2023</b>	<b>166</b>	<b>166</b>
<b>Net book value</b>		
<b>31 March 2022</b>	274	274
<b>31 March 2023</b>	<b>404</b>	<b>404</b>

## 16 Inventories

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Finished goods	3,055	1,427	3,055	1,427
Provision for obsolescence	(307)	(429)	(307)	(429)
	<b>2,748</b>	998	<b>2,748</b>	998
Cost of inventories recognised as an expense	<b>5,744</b>	4,811	<b>5,685</b>	4,811
<i>Group inventories reflect the following movement in provision for obsolescence:</i>				
At start of the financial year	429	279	429	279
Utilised	(122)	(23)	(122)	(23)
Provided	–	173	–	173
At end of the financial year	<b>307</b>	429	<b>307</b>	429

## Notes to the Financial Statements continued

## 17 Trade and other receivables

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Amounts due within one year				
Trade receivables	2,605	4,120	2,605	4,120
R&D tax credit repayments	–	598	–	598
Other receivables	213	150	213	150
Amounts owed by group companies	–	–	325	201
Prepayments and accrued income	312	129	312	128
	<b>3,130</b>	4,997	<b>3,455</b>	5,197

Trade receivables are consistent with trading levels across the Group and are also affected by exchange rate fluctuations.

No interest is charged on the trade receivables. The Group has reviewed for estimated irrecoverable amounts in accordance with its accounting policy.

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as appropriate to the level of credit extended. In addition, credit insurance would be sought for major areas of exposure, although this has not been required in the year under review.

The Group reviews trade receivables past due but not impaired on a regular basis and considers, based on experience, that the credit quality of these amounts at the balance sheet date has not deteriorated since the date of the transaction.

Included in the Group's trade receivables balance are debtors with a carrying amount of £339,366 (2022: £103,605), which are past due at the reporting date but for which the Group has not provided against. As there has not been a significant change in credit quality, the Group believes that all amounts remain recoverable.

## Ageing of past due but not impaired trade receivables

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Overdue by				
0-30 days	322	104	322	104
30-60 days	3	–	3	–
60+ days	14	–	14	–
	<b>339</b>	104	<b>339</b>	104

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Note 24 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The calculated credit risk is £9,214 (2022: £11,080). Due to the immaterial nature of the balance, no provision has been recognised.

## 18 Cash and cash equivalents

Cash and cash equivalent amounts included in the Consolidated Statement of Cashflows comprise the following:

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Cash at bank	12,439	7,330	12,042	7,065
Cash on short term deposit	5,144	6,527	5,144	6,527
<b>Total cash and cash equivalents</b>	<b>17,583</b>	<b>13,857</b>	<b>17,186</b>	<b>13,592</b>
Short term investment: fixed term deposit	1,515	1,500	1,515	1,500

Short term cash deposits of £12,974 (2022: £1,501,049) are callable on a notice of 65 days.

Short term cash deposits of £5,130,587 (2022: £5,025,495) are callable on a notice of 95 days.

Cash held on long-term deposits (being deposits with maturity of greater than 95 days) that cannot readily be converted into cash have been classified as a short term investment. A total of £1,515,000 (2021: £1,500,000) is currently held on fixed term deposit, with a maturity on this investment of less than twelve months at the reporting date.

The directors consider that the carrying value of cash and cash equivalents and short-term investments approximates their fair value. Details of the Group's credit risk management are included in note 24.

## 19 Borrowings

The Group currently has a £3,000,000 revolving credit facility, at an interest rate of 2.25% above the Bank of England base rate and secured with a floating charge over the Group assets. The total amount drawn from the borrowing facility as at 31 March 2023 was £nil. (31 March 2022: £nil)

This facility is subject to the following financial covenants:

- Leverage covenant: Gross borrowings to R&D adjusted EBITDA: The ratio of Gross Borrowings at the end of each relevant period to R&D Adjusted EBITDA for such Relevant Period shall not exceed 1.75 to 1. R&D adjusted EBITDA is defined as EBITDA less capitalised development expenditure in the period.
- Interest Cover Covenant: EBIT to Net Financing Costs: The ratio of EBIT for each Relevant Period to Net Financing Costs for such Relevant Period shall not fall below 4.00 to 1.

The Group has passed all covenant tests during the review period.

## 20 Trade and other payables

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Amounts due within one year				
Trade payables	1,770	924	1,767	911
Other taxes and social security	197	149	197	149
Other payables	75	60	75	60
Accruals	1,275	2,406	1,264	2,399
Deferred income	2,671	2,030	2,503	2,030
	<b>5,988</b>	<b>5,569</b>	<b>5,806</b>	<b>5,549</b>
Amounts due after one year				
Deferred income	1,166	718	1,126	718
Other payables	230	-	230	-
	<b>1,396</b>	<b>718</b>	<b>1,356</b>	<b>718</b>
<b>Total amounts due</b>	<b>7,384</b>	<b>6,287</b>	<b>7,162</b>	<b>6,267</b>

## Notes to the Financial Statements continued

### 20 Trade and other payables continued

Trade and other payables are consistent with trading levels across the Group but are also affected by exchange rate fluctuations.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure all payables are paid within the agreed credit terms.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

Deferred income relates to fees received for ongoing services to be recognised over the life of the service rendered, and grant proceeds received but not yet released to the Statement of Comprehensive Income.

### 21 Leases

#### Right of use assets

The Group leases land and buildings for its head office in Linlithgow, Scotland. The current lease was agreed on 1 December 2019 and will run for the 5 year period to 30 November 2024. On the 4 March 2022 the Group agreed an additional premises lease for office space in Belfast. This lease has an initial 5 year term and will run until 4 March 2027.

The Group leases IT equipment with contract terms ranging between 1 to 2 years. The Group has recognised right-of use assets and lease liabilities for these leases.

The carrying value of right of use assets, and lease obligations recognised with respect to these leases are shown below:

	Building Lease £'000	IT equipment £'000	Group Total £'000	Company Total £'000
<b>Cost</b>				
At 1 April 2022	1,044	170	1,214	1,214
Additions	–	–	–	–
Disposals	–	–	–	–
<b>At 31 March 2023</b>	<b>1,044</b>	<b>170</b>	<b>1,214</b>	<b>1,214</b>
<b>Depreciation</b>				
At 1 April 2022	336	87	423	423
Charge for the year	218	40	258	258
Eliminated on disposal	–	–	–	–
<b>At 31 March 2023</b>	<b>554</b>	<b>127</b>	<b>681</b>	<b>681</b>
Net book value				
<b>31 March 2022</b>	708	83	791	791
<b>31 March 2023</b>	<b>490</b>	<b>43</b>	<b>533</b>	<b>533</b>

#### Right-of-use assets

	Group		Company	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Balance at 1 April	791	522	791	522
Additions to right of use assets	–	473	–	473
Depreciation charge for the year	(258)	(204)	(258)	(204)
Balance at 31 March	533	791	533	791

**21 Leases** continued**Lease liabilities**

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Balance at 1 April	857	566	857	566
Acquisition of new leases	53	474	53	474
Payment of lease liabilities	(245)	(203)	(245)	(203)
Interest expense on lease liabilities	26	20	26	20
Balance at 31 March	691	857	691	857
<b>Disclosed as</b>				
Current	260	193	260	193
Non-current	431	664	431	664
	691	857	691	857

During the year, the Group also leased additional land and buildings in Belfast and one motor vehicle. These leases were low-value, so have been expensed as incurred. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

**Lease commitments for short-term and low value leases**

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Motor vehicles	17	17	17	17
Land and buildings	58	51	58	51
	75	68	75	68

**Amounts recognised in the income statement**

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Depreciation charge – building lease	218	162	218	162
Depreciation charge – IT equipment	40	42	40	42
Interest on lease liabilities	26	20	26	20
Low value lease rental	75	68	75	68

**Amounts recognised in statement of cashflows**

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Total cash outflow for leases	(245)	(203)	(245)	(203)

A maturity analysis of contractual cashflows relating to lease liabilities is included in note 24 (d).



## Notes to the Financial Statements continued

**22 Deferred tax**

The 2021 budget proposal increased the corporation tax rate to 25% from 1 April 2023. This was substantively enacted in the Finance Act 2021 on 24 May 2021.

**Deferred tax asset**

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Opening balance	304	613	304	613
Recognised in statement of comprehensive income	(192)	(424)	(192)	(424)
Recognised in equity	160	115	160	115
Closing balance	272	304	272	304
Deferred tax assets arise as follows:				
Share-based remuneration	250	265	250	265
Other timing differences	22	39	22	39
Total deferred tax asset	272	304	272	304

**Deferred tax liability**

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Opening liability	2,017	1,321	2,017	1,321
Recognised in statement of comprehensive income	440	696	180	696
Recognised in equity	–	–	–	–
Closing liability	2,457	2,017	2,197	2,017
Deferred tax liabilities arise as follows:				
Deferred tax on acquisition	260	19	–	19
Timing differences on development costs	2,108	1,915	2,108	1,915
Accelerated capital allowances	89	83	89	83
Total deferred tax liability	2,457	2,017	2,197	2,017

**23 Provisions**

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
<i>Current provisions</i>				
Overseas tax	–	141	–	141
<i>Non-current provisions</i>				
Dilapidations	15	15	15	15
Total provisions	15	156	15	156
<b>The movement in the total provision liability</b>				
At start of financial year	156	306	156	306
Recognised in profit and loss	(141)	(150)	(141)	(150)
At end of financial year	15	156	15	156

**23 Provisions** continued

Following submission and acceptance of all required documentation, provisions recognised in respect of potential payments to be made to overseas tax authorities of £141,000 have been released in the current year.

Remaining provisions pertain to potential payments to be made in respect of dilapidations on leased assets.

No discount is recorded on recognition of the provisions or unwound due to the low value and estimable nature of the non-current element.

**24 Financial instruments**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. When required, the Group uses derivative financial instruments in the form of forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, and not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

**Capital management**

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development. The Board defines capital as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## (a) Categories of financial instruments

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
<b>Financial assets (current and non-current) at amortised cost</b>				
Trade and other receivables	2,605	4,279	2,930	4,480
Cash and cash equivalents	17,583	13,857	17,186	13,592
Short term investments	1,515	1,500	1,515	1,500
<b>Financial liabilities (current and non-current) at amortised cost</b>				
Lease liabilities	691	857	691	857
Trade and other payables	4,636	3,391	4,600	3,371

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. Under the fair value three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs for the asset or liability.

## Notes to the Financial Statements continued

### 24 Financial instruments continued

#### Financial risk management objectives

The Group's senior management team manage the financial risks relating to the operations of each department. These risks include market risk, credit risk and liquidity risk.

Where appropriate, the Group seeks to minimise the effects of market risks by using financial instruments to mitigate these risk exposures as appropriate. The Group does not enter into or trade in financial instruments for speculative purposes.

#### (b) Market risks

##### Foreign currency risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

As at 31 March 2023	Sterling £'000	Euro £'000	US Dollar £'000	Total £'000
Trade receivables	400	378	1,827	2,605
Lease liabilities	(691)	–	–	(691)
Trade payables	(1,706)	(2)	(62)	(1,770)
Cash and cash equivalents	13,309	517	3,757	17,583
Short term investments: fixed term deposit	1,515	–	–	1,515
	12,827	893	5,522	19,242

Based on this exposure, had Pound Sterling weakened by 5% the Group's profit before tax would have been £320,750 lower. The percentage change is based on management's assessment of reasonable possible fluctuations.

As at 31 March 2022	Sterling £'000	Euro £'000	US Dollar £'000	Total £'000
Trade receivables	89	93	3,938	4,120
Borrowings	–	–	–	–
Lease liabilities	(857)	–	–	(857)
Trade payables	(818)	–	(106)	(924)
Cash and cash equivalents	12,989	207	661	13,857
Short term investments: fixed term deposit	1,500	–	–	1,500
	12,903	300	4,493	17,696

Based on this exposure had Pound Sterling weakened by 5% the Group's profit before tax would have been £239,650 lower. The percentage change is based on management's assessment of reasonable possible fluctuations.

##### Interest rate risk

The Group is not exposed to any significant interest rate risk as borrowings are obtained at fixed rates.

##### Other market price risk

The Group is not exposed to any other significant market price risks.

#### (c) Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

**24 Financial instruments** continued

The Group's principal financial assets, other than business assets, are trade and other receivables and cash and cash equivalents. These represent the Group's maximum exposure to credit risk in relation to financial assets.

	<i>Group</i>		<i>Company</i>	
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Trade and other receivables	<b>2,605</b>	4,075	<b>2,930</b>	4,276
Cash and cash equivalents	<b>17,583</b>	13,857	<b>17,186</b>	13,592
Short term investments	<b>1,515</b>	1,500	<b>1,515</b>	1,500
	<b>21,703</b>	19,432	<b>21,631</b>	19,368

**Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The balance presented in the balance sheet is net of allowances for doubtful receivables and returns, estimated by the Group's management based on prior experience and their assessment in the current economic climate. No adjustment has been estimated for the allowance for credit loss.

The Group's main concentration of credit risk relates to where a credit risk management approach is employed, including strict retention of title, customer stock holding visibility and the use of credit insurance.

The Group applies the IFRS 9 Financial Instruments simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The expected credit loss for trade receivables as at 31 March 2023 and 31 March 2022 were determined as follows:

<b>Days past due 2023</b>	<b>0</b>	<b>1-30</b>	<b>31-60</b>	<b>&gt;60</b>	<b>Total</b>
Balance outstanding (£'000)	<b>2,267</b>	<b>322</b>	<b>2</b>	<b>14</b>	<b>2,605</b>
Historic loss rate	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	
Estimated credit loss provision	<b>0.25%</b>	<b>1%</b>	<b>1.5%</b>	<b>2%</b>	
Potential credit loss allowance (£'000)	<b>6</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>9</b>
<b>Days past due 2022</b>	<b>0</b>	<b>1-30</b>	<b>31-60</b>	<b>&gt;60</b>	<b>Total</b>
Balance outstanding (£'000)	4,016	104	–	–	4,120
Historic loss rate	0%	0%	0%	0%	
Estimated credit loss provision	0.25%	1%	1.5%	2%	
Potential credit loss allowance (£'000)	10	1	–	–	11

Due to the immaterial nature of the assessed credit risk, no provision has been recognised for 31 March 2023 or 31 March 2022.

**Cash**

Cash is held with banks in the UK and US with high credit ratings and no financial loss due to the banks' failure to meet their contractual obligations is expected.

**(d) Liquidity risk management**

The Group manages liquidity risk through the monitoring of forecast cash flows and through the use of bank loans when required, thereby maintaining sufficient liquid assets to fund its contractual obligations and maintain the ongoing development of the Group.

## Notes to the Financial Statements continued

### 24 Financial instruments continued

#### Cash continued

The table below provides an analysis of the Group's financial liabilities to be settled on a gross basis by relevant maturity categories from the balance sheet date to the contractual settlement date. The table includes both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

31 March 2023	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total liabilities £'000
Trade payables	1,770	–	–	–	1,770
Other payables	2,834	230	–	–	3,064
Lease liabilities	293	269	143	–	705
	<b>4,897</b>	<b>499</b>	<b>143</b>	<b>–</b>	<b>5,539</b>

31 March 2022	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total liabilities £'000
Trade payables	924	–	–	–	924
Other payables	2,615	–	–	–	2,615
Lease liabilities	243	239	674	–	1,156
	<b>3,782</b>	<b>239</b>	<b>674</b>	<b>–</b>	<b>4,695</b>

### 25 Retirement benefits

Contributions by Group companies are charged to the income statement as an expense as they fall due. The amount recognised as an expense in relation to defined contributions plans was £417,521 (2022: £250,504).

### 26 Share-based payments

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
<b>Charged to administration expenses:</b>		
Equity settled share-based payments	531	249
Cash settled share-based payments	43	13
Total share-based payments	<b>574</b>	<b>262</b>

During the year 0.8m share options were granted (2022: 1.9m). The fair value of share options granted has been estimated at the date of the grant using the Black-Scholes binomial model. The following table gives the assumptions made in arriving at the share-based payment charge and the fair value:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Options issued	797,500	1,917,000
Weighted average share price (pence)	117	118
Weighted average exercise price (pence)	117	118
Expected volatility (%)	63.4-67.1	77.2- 105.2
Vesting period (years)	3-5	3-5
Option life (years)	10	10
Risk free rate (%)	0.75-4.25	0.02
Dividend yield (%)	1.0	1.0
Fair value at grant date (£'000)	399	1,071
Equity options in issue at 31 March 2022		4,474,935
Equity options issued in the year		797,500
Equity options realised in the year		(23,935)
Equity options forfeited in the year		(49,500)
Equity options in issue at 31 March 2023		5,199,000

**26 Share-based payments** continued

Expected volatility in the current year was determined by calculating the historical volatility of the Group's share price over the previous year, which the Board consider to be representative of future volatility.

During the year 38,000 cash settled options were granted (2022: 150,500). The fair value has been measured at the reporting date using the Black-Scholes binomial model. Due to the proximity of the reporting date to the issue of equity settled share options granted, the model assumptions on volatility, risk free rate, and dividend yield used for the cash settled options do not materially differ from those in the table above.

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Options issued	38,000	150,500
Weighted average share price (pence)	115	117
Weighted average exercise price (pence)	115	117
Vesting period (years)	3-5	3-5
Option life (years)	10	10
Fair value at reporting date (£'000)	18	80

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
<b>Share option reserve reconciliation</b>		
Opening balance	502	126
Equity settled share-based payments	531	249
Deferred taxation on share options: charge recognised in equity	(160)	127
Total share option reserve	873	502

**27 Group companies**

Subsidiary undertakings	Country of registration or incorporation	% of direct shares held Principal activity	2023	2022
Calnex Americas Corporation	USA	Sales and marketing Support services to Calnex Solutions plc	100%	100%
iTrinegy Ltd	UK	Development and marketing of software defined test network technology	100%	–

On 12 April 2022, Calnex Solutions plc acquired 100 per cent of the issued share capital of iTrinegy Ltd. The operations and trading of iTrinegy Ltd have been hived up into the Calnex Solutions plc entity, and the company is currently in the process of strike-off, which is expected to complete in the proceeding financial year. As part of the integration of the iTrinegy business, the Group has transferred all iTrinegy staff and trading over to Calnex solutions plc, with the iTrinegy legal entities being 'hived up' into the existing Calnex entities.

The first stage of this reorganisation completed on 30 September 2022 when iTrinegy Inc a 100% owned subsidiary of iTrinegy Ltd. Was merged with Calnex Americas Corporation, a 100% owned subsidiary of Calnex Solutions plc.

On 31 December 2022, all of the assets of iTrinegy Ltd were transferred to Calnex Solutions plc. The directors are currently in the process of striking off iTrinegy Ltd. It is anticipated this will complete within the first half of the FY24 financial year.

## Notes to the Financial Statements continued

**27 Group companies** continued**Movement in fixed asset investments**

Cost or valuation	<i>Company</i> Shares in group undertakings £'000
As at 1 April 2022	–
Cost recognised for acquisition of iTrinegy Ltd	3,203
Dividends received from pre-acquisition reserves of subsidiary	(767)
Impairment of investment value	(2,436)
<b>As at 31 March 2023</b>	–
<b>As at 31 March 2022</b>	–

As a result of the intention to strike off the remaining iTrinegy Ltd entity, investment value impairment of £2,436,000 has been recognised within the Company in the current year.

**28 Called up share capital**

As at 31 March 2023, the Company had 87,523,935 (2022: 87,500,000) Ordinary Shares held at a nominal value of 0.125p. During the year, an exercise of share options resulted in 23,935 shares being issued.

	<i>Group and Company</i>	
	31 March 2023 £'000	31 March 2022 £'000
Ordinary shares of 0.125p each	109	109
In issue at the start of the financial year	109	109
Share options exercised	0	–
In issue at end of the financial year	109	109

**29 Earnings per share**

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the year.

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the total of the weighted average number of Ordinary Shares in issue during the year and adjusting for the dilutive potential Ordinary Shares relating to share options and warrants.

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Profit after tax attributable to shareholders	5,911	4,540
Weighted average number of ordinary shares used in calculating:		
Basic earnings per share	87,520	87,500
Diluted earnings per share	92,070	90,845
Earnings per share – basic (pence)	6.75	5.19
Earnings per share – diluted (pence)	6.42	5.00

**30 Notes to the Statement of Cashflow**

Reconciliation of changes in liabilities to cashflows arising from financing activities

	Lease liabilities £'000	Total £'000
Balance at 31 March 2022	857	857
Lease repayment	(245)	(245)
Interest payments	26	26
Total changed from financing cashflows	638	638
Acquisition of new lease	53	53
Total other changes	53	53
<b>Balance at 31 March 2023</b>	<b>691</b>	<b>691</b>

**31 Share schemes**

The company operates a number of share incentive plans on behalf of its employees, details of which can be found in the Remuneration Committee report. Included in these are the UK Share Incentive Plan and a cash settled phantom plan for Non-UK employees:

**UK Employee Share Incentive Plan (UK SIP)**

The UK SIP is an all-employee HMRC approved share plan open to employees based in the UK. Employees can elect to invest up to £150 each month (£1,800 per year), deducted from their gross salary, which is used to purchase shares at market value as "partnership" shares. The Company offers participants "matching" shares, which are subject to forfeiture for three years, on the basis of one free matching share for each partnership share purchased.

**Non-UK Employee Incentive Plan**

Under the UK SIP Plan, shares may only be awarded to UK based employees of the Group. As the Board also wanted to have the discretion to grant awards to contractors and overseas employees, it was necessary to set up a separate Non-UK Employee Incentive Plan under the rules of the Notional Plan (refer to the Remuneration Committee Report for more detail). This Plan acts as a non-tax advantaged shadow equity interest plan to the UK SIP, mirroring the UK SIP awards for overseas employees and contractors with equity ownership being replaced by cash settlement. The non-UK Employee Incentive plan is therefore available to employees in countries other than the UK, on a cash-settled basis. Employees can elect to save funds up to £150 each month (£1,800 per year), deducted from their pre-tax salary, for a 12-month period, and matched by the Group. In the cash settled model, these savings are then returned to the participant at the prevailing market share price at the end of the savings period, had the funds been used to purchase Calnex Solutions plc shares (returns being fully funded by the Group). Employees participating in this scheme during the period under review included those based in China, Hong Kong and India and the USA. The fair value assessment of this obligation at the year-end was £180,000 (2022: £150,000) and is included within other creditors.



## Notes to the Financial Statements continued

### 32 Dividends

All dividends are determined and paid in Pound Sterling.

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
<b>Declared and paid in the year</b>		
Interim dividend 2022: 0.28p per share	–	245
Final dividend 2022: 0.56p per share	490	
Interim dividend 2023: 0.31p per share	271	
<b>Proposed for approval at the Annual General Meeting (not recognised as a liability at 31 March 2023)</b>		
Final 2023: 0.62p per share	543	

The directors are proposing a final dividend with respect to the financial year ended 31 March 2023 of 0.62p per share, which will represent £542,648 of a dividend payment. The final dividend will be proposed for approval at the Annual General Meeting in August 2023 and, if approved, will be paid on 30 August 2023 to all shareholders on the register as at close of business on 28 July 2023, the record date. The ex-dividend date will be 27 July 2023.

### 33 Alternative performance measures (APMs)

The performance of the Group is assessed using a variety of performance measures, including APMs which are presented to provide users with additional financial information that is regularly reviewed by the Board. These APMs are not defined under IFRS and therefore may not be directly comparable with similarly identified measures used by other companies.

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Underlying EBITDA	7,979	6,351
Underlying EBITDA %	29%	29%
Capitalised R&D	4,523	3,905

#### Key performance measures:

- **Underlying EBITDA:** EBITDA after charging R&D amortisation

#### Reconciliation of statutory figures to alternative performance measures – Income Statement

	FY23 £000	FY22 £000
<b>Revenue</b>	27,449	22,046
Cost of sales	(6,977)	(5,518)
<b>Gross Profit</b>	20,472	16,528
Other income	751	648
Administrative expenses (excluding depreciation & amortisation)	(9,928)	(7,917)
EBITDA	11,295	9,259
Amortisation of development costs	(3,315)	(2,908)
<b>Underlying EBITDA</b>	7,980	6,351
Other depreciation & amortisation	(746)	(358)
<b>Operating Profit</b>	7,234	5,993
Finance costs	(26)	(20)
<b>Profit before tax</b>	7,208	5,973
Tax	(1,297)	(1,433)
<b>Profit for the year</b>	5,911	4,540

## Company Information

<b>Directors</b>	Stephen Davidson (appointed Chair 17 August 2022) George Elliott (resigned 17 August 2022) Tommy Cook Ashleigh Greenan Graeme Bissett Margaret Rice-Jones Ann Budge (resigned 28 February 2023) Helen Kelisky (appointed 17 January 2023)
<b>Secretary</b>	Ashleigh Greenan
<b>Company number</b>	SC299625
<b>Registered office</b>	Oracle Campus Linlithgow West Lothian EH49 7LR
<b>Nominated Adviser &amp; Broker</b>	Cenkos Securities plc 6th Floor, 125 Princes Street Edinburgh EH2 4AD
<b>Financial PR</b>	Alma PR 71-73 Carter Lane London EC4V 5EQ
<b>Solicitors</b>	Burness Paull LLP 50 Lothian Road, Festival Square Edinburgh EH3 9WJ
<b>Auditor</b>	RSM UK Audit LLP Third Floor, Centenary House 69 Wellington Street Glasgow G2 6HG
<b>Registrars</b>	Computershare Investor Services plc The Pavillions, Bridgwater Road Bristol BS13 8AE
<b>Bankers</b>	Barclays 11 Melville Crescent Edinburgh EH3 7LU

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