Ubisense Group plc

Interim results for the six months ended 30 June 2014

Ubisense Group plc ("Ubisense" or the "Company") (AIM: UBI), a market leader in enterprise location intelligence solutions, has announced its interim results for the six months ended 30 June 2014.

Delivering on our strategy

- Order book, up 12% year-on-year to £15.8m as at 30 June (H1 2013 £14.1m), continues to provide good revenue visibility
- Geoplan acquisition integrated and performing in line with Board expectations

Financial highlights

- Total revenue increased by £4.9m or 40% to £17.3m (H1 2013: £12.4m)
- Solutions revenue up 46% to £8.5m (H1 2013: £5.8m) driven by increasing market traction for Smart Factory System and myWorld products
- Proportion of revenues from higher margin Solutions up to 49% (H1 2013: 47%) and increased to 62% of organic business revenues
- Recurring revenues up £0.2m to £3.5m (H1 2013: £3.3m)
- Gross margin up 5.2 bps to 33.9% (H1 2013: 28.7%)
- Adjusted EBITDA* profit of £0.2m (H1 2013: £0.4m loss)
- Reported operating loss of £2.0m (H1 2013: £1.5m loss)
- Adjusted diluted loss per share** 5.5p (H1 2013: 5.4p loss)
- Placing to institutional investors raising £4.2m before expenses to fund investment in growing the Solutions business
- Cash and cash equivalents of £5.5m and net funds of £0.8m
- Additional £2.0m bank facility signed in August 2014 to provide funding for strategic aims. Total debt facilities of £7.8m, of which £4.8m drawn at 30 June

Operational highlights

- Significant orders during the period from both new and existing customers; European and Korean automotive manufacturers, leading European and US telecoms network operators and a large US electricity utilities provider
- Ubisense Smart Factory System deployed in 7 OEMs across Europe, Asia and the USA
- Smart Warehouse System launched in conjunction with our strategic partner in Japan, Daifuku
- Robert Parker appointed as CFO, Ian Kershaw appointed as Non-Executive Director and Management team strengthened

Richard Green, Chief Executive, commented,

"We have continued to execute our strategic shift to software solutions, resulting in a significant gross margin increase. We have seen increased sales and delivery of Smart Factory and myWorld applications, with a number of milestones achieved in the period. In the utility market, we secured the largest deployment of myWorld to date, with a leading US energy company. We now have more than 25 installations of this enterprise location intelligence platform, which has been endorsed by our partner Google through their Google Maps for Business program. The Group has started the second half of 2014 with good momentum in the business and will continue to pursue growth both organically and via selective acquisitions. As a result the Group is confident it is on track to deliver results in line with the Board's expectations."

* Measured as operating profit excluding depreciation, amortisation, share-based payments charge and non-recurring costs such as acquisition and reorganisation costs.
** Earnings measured as profit for the period excluding amortisation on acquired intangible assets, share-based payments charge and non-recurring costs such as acquisition and reorganisation costs.

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About Ubisense

Founded in 2002, Ubisense serves 500 customers across 50 countries with headquarters in Cambridge (UK) and offices in the US, Canada, France, Germany, Japan, S. Korea, the Philippines and Singapore.

Ubisense is a leading provider of enterprise solutions based on Location Intelligence to the world's largest manufacturing, utilities and telecommunications companies including AGCO, Airbus, Aston Martin, BMW, Cablevision, Daimler, Deutsche Telekom, Duke Energy, John Deere, Hyundai, MINI and VW.

Ubisense solutions acquire location data and combine it with data from a range of other sources and transform it into vital business insights. Through standard, open and flexible interfaces, solutions deliver exactly what our customers need, when and where they need it.

Ubisense Enterprise Location Intelligence brings previously inaccessible efficiencies to complex manufacturing processes, and revolutionises the management of huge networks in the utilities sector.

Ultimately, Ubisense systems provide enhanced clarity and control to our customers' operations, significantly increasing the profitability of their businesses.

Overview

The Group is delighted to report significant progress in the first half of 2014. The strategic changes we have implemented in how we go to market with our leading location technology solutions tailored to our customers' needs have delivered considerable momentum during the period.

Strategy

The strategy of the Group is to:

- Continue to evolve as a global, scalable Solutions-based business supported by Services
- Develop next-generation applications that deliver strong ROI to our customers
- Focus direct business on our core markets of Telecoms, Manufacturing and Utility enterprises
- Use channel partners to extend reach within our vertical markets at low cost of sale; and
- Continue to pursue growth both organically and through acquisitions that align with our strategic objectives.

Customer adoption of our Enterprise Location Intelligence solutions has been accelerated by several factors including the consumerisation of maps led by Google, the drive to significantly increase production flexibility, the proliferation of smart devices and the growth in cloud technologies. Ubisense's software products and services capability benefits from these trends enabling enterprises across the manufacturing, utility and telecommunications sectors to deliver significant improvements in efficiency and cost savings.

The business focuses its resources on delivering the leading location intelligence technology in markets where we add the most value. As our market footprint increases, our reputation with all our customers continues to be one of value, reliability and exceptional service.

Business development

Considerable effort and investment in both Europe and North America has resulted in Ubisense securing contracts with major manufacturing customers with global presence. Several deployment extensions have been secured, with Smart Factory being implemented by a growing number of OEMs and across an ever increasing number of production lines. This repeat business allows for ROI enhancement through our systems provided to customers and is a key driver for the widespread adoption of Smart Factory implementations to manufacturers around the globe. As a result, this will drive long-term and sustainable profitability for Ubisense.

Our network business continues to demonstrate strong growth with contract wins for the myWorld application in two large US communication network operators, a leading European telecommunications provider and one of the largest electricity companies in the United States. Our position in the North American market is strengthening supported by our continued shift towards a Solutions-focused model.

Following the acquisition of the Geoplan group in December 2013, our market presence in Asia has improved significantly. The Geoplan group is performing as expected and, consistent with Group strategy, is undergoing the transformation from a services to a Solutions-focused business.

Partnerships

Our partnership channel has contributed to the continued strength of the customer order book in the first half. We expanded our relationship with Google becoming an Authorised Partner of solutions based on Google's Enterprise Maps for Business technologies. In a significant boost for the Group, Google has endorsed our myWorld product on the Google Business Maps homepage.

Our relationship with our strategic partner Daifuku to develop a Smart Warehouse system is a valuable asset, enabling deepening penetration of this, and other Ubisense products, into Daifuku's extensive, existing customer base. The activity generated across our partner channel gives us confidence in achieving our goals for the second half.

Board changes and management team

We have strengthened the Ubisense Board and management team with key appointments during the period and after the period end. In February 2014, Robert Parker joined the business as Chief Financial Officer from Optitune Group, a Finnish technology company. Ian Kershaw, a Managing Director of Ricardo Strategic Consulting, was appointed as a non-executive director on the Board in May 2014. In September 2014, a Chief Marketing Officer and Head of Organisational Development were appointed to the executive management team, both of who were senior executives at i2.

Operating and financial review

Orders

The first half of 2014 saw new customer orders of £14.2 million (H1 2013: £17.2 million comprising a number of major new contract awards as well as extensions to existing contracts). The orders in the first half included a number of multi-year managed services deals. Since the period-end this momentum has continued and the business has announced further major Solutions deals which are expected to drive second half performance including an initial $1.5 million contract for myWorld with one of the largest electric power utilities in the United States.

The customer order book as at 30 June 2014 stood at £15.8 million (H1 2013: £14.1 million) – a 12% increase year-on-year. This continues the trend of an increasing order book and gives the Company good visibility on revenues for the rest of 2014 and beyond.

Revenue

The Group is organised as a single Enterprise Location Intelligence business integrating both RTLS and geospatial technologies, with two distinct revenue streams:

- **Solutions** – revenues driven from the Ubisense product suites (Smart Factory System, myWorld), technical expertise and exclusive reseller arrangements. A solution sale will include a mixture of application software (licences in perpetuity and subscription based), installation and commissioning services, hardware and maintenance and support. Margins in any given period will vary depending upon the make-up and phase of the given set of Solutions being delivered. The Company sees this revenue stream as critical to driving the growth and profitability of the business.
- **Services** – revenues not involving the Ubisense product suites as defined above. These revenues are typically long-term managed services contracts, consultancy and training. The Company generally has good visibility on future revenue from services and believes it is critical to driving customer loyalty and providing a customer base into which it can sell its Solutions.

In the six month period under review, total revenues grew by 40% to £17.3 million (H1 2013: £12.4 million). Solutions revenue grew by 46% to £8.5 million (H1 2013: £5.8million), with continued growth expected in the second half as has been the trend in prior years as manufacturing customers deploy their capital budgets later in the year. Services revenue grew to £8.9 million (H1 2013: £6.6 million) primarily as a result of a number of new, large long-term contracts with networks customers in Americas and Europe being deployed, as well as the incremental revenues of £4.2 million from the Geoplan acquisition in the Asia Pacific region.

The majority of our revenues relate to a small number of large deals, the timing of which is not solely within our control, and each can carry a significant impact on our results in any single reporting period. However, revenues from managed services, maintenance and support grew to £3.5 million (H1 2013: £3.3 million) or 20.1% of total revenues (H1 2013: 26.8%) as the installed base of products increased and more customers adopted our managed services offering. This increase serves to stabilise revenue trends as the business grows.

As a global business with activities focused in Europe, the Americas and Asia Pacific, the reported results are subject to exchange rate volatility. During the period, sterling has strengthened against the US dollar, Euro and Japanese Yen; currencies in which the Group derives a significant proportion of its revenues. If currency exchange rates had remained constant in H1 2014 compared to H1 2013, the Board estimates that Group reported revenues would have been £1.4m higher and adjusted EBITDA doubled compared to the results reported.

Operating and financial review (continued)

To mitigate currency effects, the Group's policy is to maintain natural hedges where possible by matching foreign currency revenues and expenditure. The Board regularly reviews the forecast currency requirements and at this stage, does not consider external hedging arrangements for profit and loss items to be appropriate for the Group.

Gross margin

The gross margin increased by 5.2 basis points to 33.9% (H1 2013: 28.7%). This was primarily the result of the revenue mix with an increase in the proportion of Solutions revenues, which are generally higher margin than Services revenues.

Operating expenses

Operating expenses increased to £7.9 million (H1 2013: £5.0 million) due to the enlarged size of the Group following the Geoplan acquisition in December 2013 and higher amortisation charges. Operating expenses include sales & marketing, product marketing, product development, general & administration and foreign exchange.

Gross expenditure on product development increased 17% to £1.8 million (H1 2013: £1.5 million) reflecting increased investment in our flagship Smart Factory and myWorld products. Capitalised product development costs at £1.3 million (H1 2013: £1.1 million) represented 74% (H1 2013: 72%) of gross development spend whilst amortisation of the capitalised development costs was £1.2 million (H1 2013: £0.6 million).

The Group incurred exceptional costs of £315,000 relating to integration costs following the acquisition of Geoplan group in December 2013.

EBITDA and operating profit

Group Adjusted EBITDA for the period was a profit of £0.2 million (H1 2013: £0.4 million loss). The operating loss for the period was £2.0 million (H1 2013: £1.5 million loss) and loss before tax for the period was £2.1 million (H1 2013: £1.5 million loss). The operating loss and loss before tax includes amortisation and depreciation charges of £1.8 million (H1 2013: £0.9 million) which have increased due to the higher amortisation on acquired intangible assets following the Geoplan acquisition in December 2013 and higher amortisation on capitalised product development costs reflecting the increased spend in recent years.

Interest and tax

Net interest payable for the period was £64,000 (H1 2013: £6,000) mainly reflecting the finance charge on £4.8 million in bank loans.

The Group has a net tax credit of £84,000 (H1 2013: £82,000 net expense), as a result of non-cash deferred tax on capitalised development costs and acquired intangible assets and a small tax charge in two subsidiary companies. Management's best estimate of the effective current tax rate in all other group companies is nil due to the availability of prior years' losses.

EPS and dividends

Adjusted diluted loss per share was 5.5 pence (H1 2013: 5.4 pence loss). Reported basic and diluted loss per share was 8.8 pence (H1 2013: 7.0 pence loss). The Board does not feel it appropriate at this time to commence paying dividends.

Balance sheet, cash and cash flow

The Group has a robust balance sheet with shareholder funds at 30 June 2014 of £21.1 million (31 December 2013: £19.2 million). Due to the proximity to the year end of the Geoplan acquisition in December 2013, the fair values of assets and liabilities acquired were provisional at 31 December 2013 in line with IFRS 3. The post-acquisition review of the net assets acquired has been conducted in the current period and as a result, the balance sheet at 31 December 2013 restated.

The Group has a three year working capital facility of £5.0 million agreed with HSBC in 2013 of which £4.0 million was drawn down at 30 June 2014 (31 December 2013: £3.5 million).

Operating and financial review (continued)

In June 2014, a 130 million Japanese Yen denominated loan (£0.8 million) was agreed with Mizuho Bank and fully drawn down, taking advantage of the low interest rates available in that region and acting as a natural hedge against the Group's assets in Asia.

Since the period end, the Group agreed an additional £2.0 million four-year term loan with HSBC to provide funds for future acquisitions. This facility has yet to be drawn upon as at 16 September 2014.

Cash held on the balance sheet at 30 June 2014 was £5.5 million (31 December 2013: £4.0 million) and net funds at 30 June 2014 were £0.8 million (31 December 2013: £0.5 million).

The main components of the cash movements in the first six months of 2014 included net receipts of £4.0 million from a placing to institutional shareholders (H1 2013: £nil); the receipt of the new bank loans of £1.3 million (H1 2013: £2.0 million); outflows of £1.9 million (H1 2013: £1.2 million) for capital investment product development and plant and equipment; and an operating cash outflow of £1.7 million (H1 2013: £1.6 million outflow).

Capital structure

The issued share capital at 30 June 2014 was 25,037,652 (31 December 2013: 23,079,146) ordinary shares of £0.02 each. The increase of 1,958,506 shares relates to 1,929,589 shares issued in the April 2014 placing and 28,917 share option exercises by employees. 447,500 share options were granted to employees on 23 May 2014 at an exercise price of £2.25, being the share price at the time. 192,500 options vest after 3 years, depending on continued service during the vesting period. 255,000 options also have certain performance criteria attached in order to vest. The total number of unexercised share options at 30 June 2014 was 2,430,347.

Risks and uncertainties

The Board continuously assesses and monitors the key risks of the business. The key risks that could affect the Group's medium term performance, and the factors which mitigate these risks, have not significantly changed from those set out on pages 15 to 17 of the Group's Annual Report for 2013, a copy of which is available from our website **www.ubisense.net**.

Current trading and outlook

Ubisense has started the second half of 2014 with strong momentum. We will continue to grow our Solutions business both organically and via selective acquisitions, which will enhance our position in the Manufacturing, Telecommunications and Utility sectors. As a result, the Group is confident it is on track to deliver results in line with the Board's expectations.

Interim income statement

For the six months ended 30 June 2014

	Notes	Six months to 30 June 2014 unaudited £'000	Six months to 30 June 2013 unaudited £'000	12 months to 31 December 2013 audited £'000
Revenues	4	**17,331**	12,385	27,002
Cost of revenues		**(11,455)**	(8,827)	(17,761)
Gross profit		**5,876**	3,558	9,241
Operating expenses		**(7,891)**	(5,013)	(10,867)
Operating loss		**(2,015)**	(1,455)	(1,626)
Analysed as:				
Gross profit		**5,876**	3,558	9,241
Other operating expenses		**(5,695)**	(3,958)	(8,100)
Adjusted EBITDA		**181**	(400)	1,141
Depreciation		**(170)**	(130)	(266)
Amortisation of acquired intangible assets		**(374)**	(128)	(313)
Amortisation of other intangible assets		**(1,300)**	(643)	(1,332)
Share-based payments charge		**(37)**	(40)	(92)
Exceptional costs	5	**(315)**	(114)	(764)
Operating loss		**(2,015)**	**(1,455)**	**(1,626)**
Net finance costs		**(64)**	(6)	(93)
Loss before tax		**(2,079)**	(1,461)	(1,719)
Income tax		**84**	(82)	(219)
Loss for the period		**(1,995)**	**(1,543)**	**(1,938)**
Loss attributable to:				
Equity shareholders of the Company		**(2,121)**	(1,543)	(1,968)
Non-controlling interest		**126**	-	30
Loss per share attributable to equity shareholders of the parent (pence)				
Basic	6	**(8.8)**	(7.0)	(8.9)
Diluted	6	**(8.8)**	(7.0)	(8.9)

The notes 1 to 11 are an integral part of these condensed interim financial statements.

Ubisense

Interim statement of comprehensive income

For the six months ended 30 June 2014

	Six months to 30 June 2014 unaudited £'000	Six months to 30 June 2013 unaudited £'000	12 months to 31 December 2013 audited £'000
Loss for the period	**(1,995)**	(1,543)	(1,938)
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss			
Exchange difference on retranslation of net assets and results of overseas subsidiaries	**(208)**	(110)	(203)
Total comprehensive income for the period	**(2,203)**	(1,653)	(2,141)

Interim statement of changes in equity

For the six months ended 30 June 2014

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Trans-lation reserve £'000	Retained earnings £'000	Subtotal £'000	Non-controlling interest £'000	Total £'000
Balance at 1 January 2013 (audited)	**438**	**22,251**	**654**	**(48)**	**(4,374)**	**18,921**	**-**	**18,921**
Loss for the period	-	-	-	-	(1,543)	(1,543)	**-**	**(1,543)**
Exchange difference on retranslation of net assets and results of overseas subsidiaries	-	-	-	(110)	-	(110)	**-**	**(110)**
Total comprehensive income for the period	-	-	-	(110)	(1,543)	(1,653)	**-**	**(1,653)**
Reserve credit for equity-settled share-based payment	-	-	40	-	-	40	**-**	**40**
Issue of new share capital	2	-	-	-	-	2	**-**	**2**
Premium on new share capital	-	18	-	-	-	18	**-**	**18**
Transactions with owners	2	18	40	-	-	60	**-**	**60**
Balance at 30 June 2013 (unaudited)	**440**	**22,269**	**694**	**(158)**	**(5,917)**	**17,328**	**-**	**17,328**
Loss for the period	-	-	-	-	(425)	(425)	30	**(395)**
Exchange difference on retranslation of net assets and results of overseas subsidiaries	-	-	-	(63)	-	(63)	(30)	**(93)**
Total comprehensive income for the period	-	-	-	(63)	(425)	(488)	-	**(488)**
Reserve credit for equity-settled share-based payment	-	-	52	-	-	52	-	**52**
Non-controlling interest in new subsidiary	-	-	-	-	-	-	554	**554**
Issue of new share capital	21	-	-	-	-	21	-	**21**
Premium on new share capital	-	1,781	-	-	-	1,781	-	**1,781**
Transactions with owners	21	1,781	52	-	-	1,854	554	**2,408**
Balance at 31 December 2013 (audited, restated)	**461**	**24,050**	**746**	**(221)**	**(6,342)**	**18,694**	**554**	**19,248**
Loss for the period	-	-	-	-	(2,121)	(2,121)	126	**(1,995)**
Exchange difference on retranslation of net assets and results of overseas subsidiaries	-	-	-	(173)	-	(173)	(35)	**(208)**
Total comprehensive income for the period	-	-	-	(173)	(2,121)	(2,294)	91	(2,203)
Reserve credit for equity-settled share-based payment	-	-	37	-	-	37	-	**37**
Issue of new share capital	40	-	-	-	-	40	-	**40**
Premium on new share capital	-	4,222	-	-	-	4,222	-	**4,222**
Share issue costs	-	(229)	-	-	-	(229)	-	**(229)**
Transactions with owners	40	3,993	37	-	-	4,070	-	**4,070**
Balance at 30 June 2014 (unaudited)	**501**	**28,043**	**783**	**(394)**	**(8,463)**	**20,470**	645	**21,115**

Ubisense

Interim statement of financial position

At 30 June 2014

	Notes	At 30 June 2014 unaudited £'000	At 30 June 2013 unaudited £'000	Restated At 31 December 2013 audited £'000
Assets				
Non-current assets				
Intangible assets	7	**15,834**	10,662	16,247
Property, plant and equipment		**819**	564	628
Total non-current assets		**16,653**	11,226	16,875
Current assets				
Inventories		**3,031**	1,330	2,588
Trade and other receivables		**11,015**	11,621	11,547
Cash and cash equivalents		**5,537**	2,038	3,964
Total current assets		**19,583**	14,989	18,099
Total assets		**36,236**	26,215	34,974
Liabilities				
Current liabilities				
Bank loans	10	**(758)**	(2,000)	-
Trade and other payables		**(8,450)**	(6,157)	(10,023)
Total current liabilities		**(9,208)**	(8,157)	(10,023)
Non-current liabilities				
Deferred tax liability		**(1,479)**	(730)	(1,773)
Bank loans	10	**(4,000)**	-	(3,500)
Other liabilities	9	**(434)**	-	(430)
Total non-current liabilities		**(5,913)**	(730)	(5,703)
Total liabilities		**(15,121)**	(8,887)	(15,726)
Net assets		**21,115**	17,328	19,248
Equity				
Equity attributable to owners of the parent company				
Share capital	8	**501**	440	461
Share premium		**28,043**	22,269	24,050
Share based payment reserve		**783**	694	746
Translation reserve		**(394)**	(158)	(221)
Retained earnings		**(8,463)**	(5,917)	(6,342)
Equity attributable to owners of the parent company		**20,470**	**17,328**	**18,694**
Non-controlling interests		**645**	-	554
Total equity		**21,115**	**17,328**	**19,248**

The notes 1 to 11 are an integral part of these condensed interim financial statements.

Ubisense

Interim statement of cash flows

For the six months ended 30 June 2014

	Notes	Six months to 30 June 2014 unaudited £'000	Six months to 30 June 2013 unaudited £'000	12 months to 31 December 2013 audited £'000
Cash used in operations before tax	11	**(1,853)**	**(1,573)**	**(747)**
Net income taxes received/(paid)		**141**	(5)	(7)
Net cash flows from operating activities		**(1,712)**	(1,578)	(754)
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		**(176)**	-	1,846
Purchases of property, plant and equipment		**(345)**	(93)	(140)
Expenditure on intangible assets		**(1,403)**	(1,125)	(3,085)
Interest received		**15**	6	10
Net cash flows from investing activities		**(1,909)**	(1,212)	(1,369)
Cash flows from financing activities				
Receipt of new bank loan		**1,258**	2,000	3,500
Interest paid		**(84)**	(12)	(92)
Proceeds from the issue of share capital	8	**4,033**	20	111
Net cash flows from financing activities		**5,207**	2,008	3,519
Net increase in cash and cash equivalents		**1,586**	(782)	1,396
Cash and cash equivalents at start of period		**3,964**	2,716	2,716
Exchange differences on cash and cash equivalents		**(13)**	104	(148)
Cash and cash equivalents at end of period		**5,537**	2,038	3,964

The notes 1 to 11 are an integral part of these condensed interim financial statements.

Notes to the interim financial statements

1 General information

Ubisense Group plc ('the Company') and its subsidiaries (together, 'the Group') deliver mission-critical location-based smart technology which enables companies to optimise their business processes.

The Group has operations in the UK, USA, Canada, France, Germany, Japan, South Korea, the Philippines and Singapore and sells mainly in the Americas, Europe and Asia Pacific.

The Company is a public limited company which is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange (UBI) and is incorporated and domiciled in the UK. The address of its registered office is St. Andrew's House, St. Andrew's Road, Chesterton, Cambridge, CB4 1DL.

The condensed consolidated interim financial statements were approved by the Board of Directors for issue on 15 September 2014.

The condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2013 were approved by the Board of Directors on 24 March 2014 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements have been reviewed, not audited.

2 Basis of preparation

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Group and are prepared in accordance with IFRSs as adopted by the European Union.

Going concern basis

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

3 Accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are unchanged from those set out in the Group's consolidated financial statements for the year ended 31 December 2013. These policies have been consistently applied to all the periods presented.

The operations of the Group display a degree of seasonality with stronger performance typically seen in the second half of the year. This is due to customers' budgetary cycles and the capital nature of the products sold by the Group.

4 Segmental Information

IFRS 8 requires a "management approach" under which information in the financial statements is presented on the same basis as that used for internal management reporting purposes. The Group is organised on a global basis as a single Enterprise Location Intelligence business. This is the basis of the Group's external market offering and internal organisational and management structure and is the primary way in which the Chief Executive Officer, who is the Chief Operating Decision Maker, receives financial information to assess Group performance. As a result, the Group has therefore determined that it has only one reportable segment as defined by IFRS 8.

The internal management accounting information is prepared on an IFRS basis but has a non-GAAP "Adjusted EBITDA" as the primary measure of profit and this is reported on the face of the income statement.

In addition, the Board and the Executive Management Team consider the business to have two revenue streams with different characteristics, Solutions and Services, which are generated from the same asset and cost base.

4.2 Revenue by nature

	Six months to 30 June 2014 unaudited £'000	Six months to 30 June 2013 unaudited £'000	12 months to 31 December 2013 audited £'000
Solutions	**8,476**	5,802	13,375
Services	**8,855**	6,583	13,627
Total revenues	**17,331**	12,385	27,002

4.2 Revenue by geography

	Six months to 30 June 2014 unaudited £'000	Six months to 30 June 2013 unaudited £'000	12 months to 31 December 2013 audited £'000
United Kingdom	**189**	609	539
Americas	**7,269**	6,090	11,988
Europe	**5,614**	5,451	12,478
Asia Pacific	**4,259**	235	1,997
Total revenues	**17,331**	12,385	27,002

Revenues from external customers in the Group's domicile, the UK, as well as its major markets, Europe, Americas and Asia Pacific, have been identified on the basis of the customer's geographical location.

5 Exceptional items

During the period, the Group incurred reorganisation costs totaling £315,000 comprising mainly redundancy costs and other one-off expenses in order to integrate the Geoplan acquisition made in December 2013.

During 2013, the Group incurred exceptional items of £764,000. £114,000 was incurred in the first half of 2013 mainly comprising professional fees in connection with an acquisition that did not proceed and a further £650,000 in the second half of 2013 was relating to the acquisition of Geoplan.

6 Earnings per share

	Six months to 30 June 2014 unaudited	Six months to 30 June 2013 unaudited	12 months to 31 December 2013 audited
Earnings			
Loss for the period (£'000)	**(2,121)**	(1,543)	(1,968)
Loss for the purposes of diluted earnings per share (£'000)	**(2,121)**	(1,543)	(1,968)
Number of shares			
Basic weighted average number of shares ('000)	**24,036**	21,953	21,984
Effect of dilutive potential ordinary shares:			
- Share options ('000)	**1,141**	1,281	1,034
Diluted weighted average number of shares ('000)	**25,177**	23,234	23,018
Basic loss per share (pence)	**(8.8)**	(7.0)	(8.9)
Diluted loss per share (pence)	**(8.8)**	(7.0)	(8.9)

Basic earnings per share is calculated by dividing profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. For diluted earnings per share, the weighted average number of shares is adjusted to allow for the effects of dilutive share options. Options have no dilutive effect in loss-making years, and hence the diluted loss per share for the periods ended 30 June 2014 and 2013 and 31 December 2013 is the same as the basic loss per share.

The Group also presents an adjusted diluted earnings per share figure which excludes amortisation on acquired intangible assets, share-based payments charge and non-recurring expenditure such as acquisition and reorganisation costs from the measurement of profit for the period.

Adjusted diluted earnings per share	Six months to 30 June 2014 unaudited	Six months to 30 June 2013 unaudited	12 months to 31 December 2013 audited
Loss for the purposes of diluted earnings per share (£'000)	**(2,121)**	(1,543)	(1,968)
Adjustments			
Reversal of amortisation on acquired intangible assets (£'000)	**374**	128	313
Reversal of share-based payments charge (£'000)	**37**	40	92
Reversal of exceptional items (£'000)	**315**	114	764
Net adjustments (£'000)	**726**	282	1,169
Adjusted earnings (£'000)	**(1,395)**	(1,261)	(799)
Adjusted diluted (loss)/earnings per share (pence)	**(5.5)**	(5.4)	(3.5)

7 Intangible assets

Net book amount	At 30 June 2014 unaudited £'000	At 30 June 2013 unaudited £'000	Restated At 31 December 2013 audited £'000
Goodwill	**9,587**	7,418	9,619
Capitalised product development costs	**4,056**	2,597	3,920
Software	**373**	166	411
Acquired software products	**377**	220	523
Acquired customer relationships and backlog	**1,441**	261	1,774
Total other intangible assets	**15,834**	10,662	16,247

8 Share capital

Allotted, called-up and fully paid	At 30 June 2014 unaudited £'000	At 30 June 2013 unaudited £'000	At 31 December 2013 audited £'000
Ordinary shares of £0.02 each	**501**	440	461

Movement in number of shares	At 30 June 2014 unaudited £'000	At 30 June 2013 unaudited £'000	At 31 December 2013 audited £'000
Number of shares at beginning of period	**23,079,146**	21,919,744	21,919,744
Issued under placing	**1,929,589**	-	-
Issued under share-based payment plans	**28,917**	95,644	399,593
Issued on acquisition of subsidiary	**-**	-	759,809
Change in number of shares in period	**1,958,506**	95,644	1,159,402
Number of shares at end of period	**25,037,652**	22,015,388	23,079,146

Share capital movements

During the period, the Company issued 1,958,506 shares increasing the total number of shares in issue from 23,079,146 to 25,037,652 as follows:

- 1,929,589 shares at £2.20 per share for a total gross cash consideration of £4,246,000, with share issue costs of £229,000 written off against the share premium account; and

- 28,917 share options exercised with a weighted average exercise price of £0.53 per share for total cash consideration of £15,500.

9 Business combinations

9.1 Assets acquired and liabilities recognised at date of acquisition

The Geoplan Interworks K.K group of companies ("Geoplan") was acquired on 3 December 2013. As at 31 December 2013, the fair values of acquired assets, liabilities and goodwill for Geoplan were determined on a provisional basis due to the proximity of the acquisition to the year end.

The post-acquisition review of the fair value of the net assets acquired was completed in the current period. The following amendments have been retrospectively applied to net assets acquired and liabilities recognised at the date of acquisition.

	At 31 December 2013 audited £'000	Fair value adjustment £'000	At 31 December 2013 Restated £'000
Assets			
Non-current assets			
Acquired software products	626	(218)	408
Acquired customer relationships and backlog	1,593	-	1,593
Software	173	-	173
Property, plant and equipment	132	-	132
Total non-current assets	2,524	(218)	2,306
Current assets			
Inventories	1,605	(518)	1,087
Trade and other receivables	1,080	-	1,080
Cash and cash equivalents	2,481	-	2,481
Total current assets	5,166	(518)	4,648
Liabilities			
Current liabilities			
Trade and other payables	(4,500)	-	(4,500)
Total current liabilities	(4,500)	-	(4,500)
Non-current liabilities			
Deferred income tax liabilities	(843)	83	(760)
Total non-current liabilities	(843)	83	(760)
Non-controlling interest	(704)	150	(554)
Fair value of identifiable net assets acquired	1,643	(503)	1,140
Goodwill arising on acquisition	1,697	503	2,200
Fair value of consideration transferred	3,340	-	3,340

9.2 Contingent consideration

	At 31 December 2013 audited £'000	Effect of exchange rates unaudited £'000	Paid in the period unaudited £'000	At 30 June 2014 unaudited £'000
Contingent consideration - non-current	430	4	-	**434**
Contingent consideration - current	355	4	-	**359**
Total contingent consideration	785	8	-	**793**
Deferred consideration	172	7	(179)	**-**
Total	957	15	(179)	**793**

The consideration to acquire Geoplan included cash, issue of Ubisense shares, deferred consideration and contingent consideration. The deferred consideration was paid in full in January 2014.

Under the contingent cash consideration arrangement, the Group is required to pay additional amounts to vendors based on the achievement of two separate performance milestones that may arise between 2014 and 2017 with combined undiscounted range of outcomes between nil and 149 million Japanese Yen (£nil to £892,000).

At acquisition, the fair value of the contingent consideration was 136 million Japanese Yen (£816,000) being management's best estimate of the probability-adjusted estimated discounted future cashflows. The fair value of the amount recognised is unchanged since acquisition although as the liability is denominated in Japanese Yen, its sterling equivalent has reduced to £793,000 at 30 June 2014.

10 Bank loans

In March 2014, the Group drew down a further £0.5 million on the £5.0 million bank loan facility agreed in August 2013 to provide additional working capital. This loan is repayable in full in August 2016 by Ubisense Ltd, is secured on the fixed and floating assets of the Group and attracts an interest charge of LIBOR + 3%. As at 30 June 2014, £4.0 million of the £5.0 million facility is drawn down and is subject to certain operating and net worth covenants of the business.

The Group agreed a one year loan of 130 million Japanese Yen in June 2014, which is repayable in June 2015. The loan is unsecured and interest is payable at 0.99%.

In August 2014 the Group agreed a new, additional 4 year bank loan facility of £2.0 million to provide funds for acquisitions and is repayable in quarterly installments. Interest is payable at Bank of England base rate + 3% and the facility is secured on the fixed and floating assets of the Group. The facility is subject to certain operating and net worth covenants of the business.

11 Cash generated from operations

	Six months to 30 June 2014 unaudited £'000	Six months to 30 June 2013 unaudited £'000	12 months to 31 December 2013 audited £'000
Loss before tax	**(2,079)**	(1,461)	(1,719)
Adjustments for:			
Depreciation	**170**	130	266
Amortisation	**1,674**	771	1,645
Share-based payments charge	**37**	40	92
Finance income	**(15)**	(6)	(10)
Finance costs	**79**	12	103
Operating cash flows before working capital movements	**(134)**	(514)	377
Change in inventories	**(443)**	(469)	(639)
Change in receivables	**490**	(1,536)	242
Change in payables	**(1,766)**	946	(727)
Cash used in operations before tax	**(1,853)**	(1,573)	(747)

Independent review report to Ubisense Group plc

Introduction

We have been engaged by the company to review the financial information in the half-yearly financial report for the six months ended 30 June 2014 which comprises the interim income statement, interim statement of comprehensive income, interim statement of changes of equity, interim statement of financial position, interim statement of cash flows and the related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 2.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 2.

Grant Thornton UK LLP

Chartered Accountants

Registered Auditor

Cambridge

15 September 2014