Ubisense Group plc

Interim results for the six months ended 30 June 2018

Ubisense Group plc ("Ubisense" or the "Group") (AIM: UBI), a market leader in enterprise location intelligence solutions, is pleased to announce its interim results for the six months ended 30 June 2018.

Overview	• Orders received increased by 47% to £13.7m (H1 2017: £9.3m) including a £4.5m military training SmartSpace contract with a similar order expected in 2019 • New myWorld and SmartSpace software product launches extend the competitive advantage in both markets • Increased investment in sales and marketing continues to drive both the myWorld and SmartSpace pipelines • Sale of Japanese third party geospatial services business in line with strategy to focus on own products
Financial highlights	• Software revenue increased by 15% • Maintenance and support revenues increased by 31% to £1.1m (H1 2017: £0.8m) • Software strategy producing increased gross margin percentages in both business units delivered 41% overall (H1 2017: 38%) • Cash of £5.8m and net funds of £4.0m (31 Dec 2017: cash £9.1m and net funds £6.6m)
Operational highlights	• Won new business with industry leaders in core sectors of manufacturing, communications and utilities • Launched myWorld for Salesforce in the Salesforce AppExchange as the first step in building a recurring revenue stream and building business with Salesforce customers • Nominated as one of Daimler's suppliers of the year for 2017 • Established new partner relationships to reinforce existing target industry focus and explore adjacent industry opportunities

Richard Petti, Chief Executive Officer, commented,

"These results demonstrate the continued progress Ubisense has made in recent periods in delivering its software-first strategy. The actions we have taken have resulted in a go-to-market capability that matches our two world class enterprise software businesses. Our strategy of growing revenue from our own product software solutions continues to deliver, and I am particularly pleased with the large increase in our order book and the quality of our pipeline. The second half has started strongly and we expect revenues to increase for our own products, with improved gross margins. These trends give the Board confidence in the outturn for the full year."

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About Ubisense

Ubisense (AIM: UBI), a global leader in Enterprise Location Intelligence solutions, is a trusted adviser to some of the biggest automotive, aerospace, communications and utility companies in the world. Our solutions are based on powerful enterprise platforms, supported by a range of customer-led applications, that use location to deliver a real-time digital twin of our customer's physical operations, proven to drive quality, increase productivity, manage complexity and reduce costs. Founded in 2002, Ubisense is headquartered in Cambridge, UK, with subsidiaries in France, Germany, USA, Canada and Japan. For more information visit: www.ubisense.net.

Overview

In the first half of 2018, the Group continued to trade in line with the Board's expectations. It is particularly pleasing that this performance shows the progress the Company has made following the £5.5m fundraise in November 2017. The proceeds allowed Ubisense to invest in a high-quality sales and marketing capability, creating a well-organised and effective route to market for our industry leading enterprise software solutions. While the sales cycle for enterprise software solutions can be long, Ubisense has delivered a 47% increase in year-on-year orders. We have created a strong pipeline across both existing customers and new prospects, which shows significant investment in the digital transformation of their businesses.

During the period, the Group won new business with industry leaders in our core target sectors of communications, utilities and manufacturing, as well as achieving significant sales in new industries.

Strategy

Ubisense has and continues to develop the Group's activities as two separate business units. This structure enables each unit to develop and execute distinct sales and marketing strategies designed to increase operational productivity across targeted industries through its digital twin technology. The Geospatial business unit (consisting of myWorld software and services, and additionally services attached to third party products) is concentrated on the communications and utilities industries, the SmartSpace business unit focuses on automotive, commercial vehicles, aerospace, defence and transport.

The Group is focused on the three-point strategy outlined in the 2017 annual report to achieve the performance goals of the business:

Refocus the business

- Target key industries and top 200 global companies
- Develop customer driven product roadmaps
- Manage out legacy third party software and service business

Improve sales execution

- Strengthen go-to-market capabilities and geographic coverage
- Deploy metric-driven CRM and Marketing Automation resources
- Establish a broader, more consistent business pipeline

Reposition the product portfolio

- Solve enterprise level business challenges
- Create a modular architecture addressing known customer pain-points
- Communicate the long-term value Ubisense products deliver to customers

Business development - myWorld

Opportunities for myWorld software sales remain strong with new account wins and expansion of existing customers in the communications industry in North America. The enhanced myWorld Fiber Planning and myWorld Capture modules, and open platform support for GIS systems, have been well received by prospects and customers.

During the first half of 2018, the Group continued to invest in its sales capability in Europe, and whilst still at an early stage, has begun to develop its pipeline of opportunities which is expected to deliver revenue in 2019.

The myWorld product line has also extended the recent Salesforce relationship by launching a new "myWorld for Salesforce" app on the Salesforce AppExchange. This unique app provides access to business critical geospatial and engineering information through the Salesforce ecosystem, increasing productivity and reducing operating costs for utility and communication businesses. To further develop this partnership, Ubisense is working actively with the Salesforce partner team on a number of marketing and sales enablement activities in the second half of 2018.

Business development - SmartSpace

In the first half of 2018 for our SmartSpace business, there were notable orders from our major German and US automotive and commercial vehicle customers, one of our long-standing North American transit customers and the first customer order from a European transit operator.

The highlight of the first half, and a clear success story with a new market, was the award of a £4.5m contract win for a military training application as part of a military training contract for a founding NATO member. This win is confirmation of the applicability of the digital twin solution in adjacent markets. Violent storms in North America disrupted the initial delivery at the end of June resulting in £1.1m revenue being deferred to July and the second half of 2018. Without the storms, revenue growth for the first half would have been significantly greater at 31% for SmartSpace and 21% for total own products and would have resulted in improved gross margins.

In the second half of 2018, Ubisense will be investing in sales and marketing activities for the aerospace industry where SmartSpace has a strong proposition for the MRO market (Maintenance Repair Operations), as well as further building its hardware agnostic solutions with inclusion of Bluetooth Low Energy products from Quuppa.

Other matters and management team

Ubisense recruited three experienced professionals in some of its key geographies to fill senior management roles in the first half of 2018. The roles recruited include Christian Wirth European General Manager based in Germany, Tatsya Yamaguchi General Manager for Ubisense in Japan, and Steve Tongish Chief Marketing Officer.

During the period, the board reflected on its corporate governance model and has decided, given its size, to adopt the QCA Corporate Governance Code rather than the UK Corporate Governance Code. In line with the requirements of AIM notice 50, appropriate adjustments to the Group's website have been made.

Current trading and outlook

The Group's strategy of increasing revenue from own product software solutions globally via an effective, well-organised and focused sales function, whilst still at an early stage, is delivering improved performance. The 47% increase in orders is demonstrative of the significant improvement in the pipeline and the Company expects further progress in pipeline building in the next period.

Whilst total revenue has been impacted by the planned and managed decline in third party Geospatial services (including the disposal of the Japanese business) and extreme weather impacted deliveries in June, the focus on own product software sales has improved the quality of the top line as reflected in the increase in gross margin percentage. As the strategy continues to be implemented, the Board expects gross margin and profitability to improve further.

Investment in front line sales and marketing costs increased costs in the first half which will continue into the second half, but this is expected to be outweighed by increased sales of own products and thereby increased gross margins going forward. The sale of advanced software requires salespeople with a highly specialised skill set and the Company is very excited by the quality of the hires. While typical sales cycles are in the 18-24 month range, our activities are building a strong pipeline and positioning Ubisense for future growth.

We expect cashflows to improve in the second half driven by the delivery of order backlog and returns on the investments in sales.

The Board expects that the Company will deliver full year results in line with its expectations, showing progress in own product revenue and gross margin.

Financial Key Performance Indicators

	H1 2018 £m	H1 2017 £m
Bookings of new orders	13.7	9.3
Revenue	10.3	12.4
Own product revenue	7.1	6.8
Order-book backlog to be recognised	12.3	10.2
Adjusted EBITDA	(1.1)	(0.2)
Cash and cash equivalents	5.8	6.5
Net cash/(debt)	4.0	3.2

Revenue

The Group is organised into two business units: SmartSpace and Geospatial. Geospatial includes myWorld products and services, and additionally services connected to third party products. SmartSpace provides software solutions and services to enterprise customers, and additionally hardware solutions.

The revenue composition by division is summarised in the table below:

Own product revenue	H1 2018 £ m	% of total revenue	H1 2017 £ m	% of total revenue	Year on year growth
SmartSpace	4.6	65%	4.4	65%	6%
myWorld	2.5	35%	2.4	35%	5%
Total revenue generated from own products	7.1	100%	6.8	100%	6%

Revenue composition by revenue stream is summarised in the table below:

Revenue stream	H1 2018 £ m	% of total revenue	H1 2017 £ m	% of total revenue	Year on year growth
Software	1.2	12%	1.1	9%	15%
Maintenance and support	1.1	10%	0.8	7%	31%
Hardware	1.5	15%	1.9	15%	(19)%
Services	3.3	32%	3.0	24%	11%
Total revenue generated from own products	7.1	69%	6.8	55%	6%
Geospatial services from third party products	3.2	31%	5.6	45%	(43)%
Total revenue	10.3	100%	12.4	100%	(17)%

The Group has shown growth in software revenues of 15% and recurring maintenance and support contracts of 31%.

Revenue generated from the Group's own products has increased by 6% as the long-term strategy of the Group continues to be sales and development of the SmartSpace and myWorld product suites.

Orders

Total bookings of new customer orders in the first half of 2018 increased by 47% to £13.7 million (H1 2017: £9.3 million). £9.5 million of this related to SmartSpace (H1 2017: £3.1 million), £1.2 million related to myWorld (H1 2017: £3.3 million) and £3.0 million to Geospatial Services (H1 2017: £3.0 million).

SmartSpace bookings included a significant North American contract win to a provider of military training solutions, currently fulfilling a contract with a founding NATO member. Similar sized follow-on orders are expected in 2019.

The order book backlog as at 30 June 2018 was £12.3 million (30 June 2017: £10.2 million), most of which will be recognised during 2018.

Gross margin

The Group gross margin was 41% for the six months ended 30 June 2018 (H1 2017: 38%).

Gross margin by division	H1 2018 £ m	Gross margin %	H1 2017 £ m	Gross margin %	Gross margin movement
SmartSpace	1.8	38%	1.4	32%	6%
Geospatial	2.4	43%	3.3	41%	2%
Total gross margin	4.2	41%	4.7	38%	3%

The gross margin of the SmartSpace division has increased compared to the first half of 2017 due to revenue mix with a higher proportion of higher margin software revenue. The Geospatial division's gross margin was improved as the myWorld revenue mix increased compared to the first half of 2017.

Operating expenses and adjusted EBITDA

Operating expenses were £6.9 million (H1 2017: £6.6 million) and are summarised as follows:

	H1 2018 £ m	H1 2017 £ m
Other operating expenses	5.4	4.9
Depreciation	0.6	0.2
Amortisation and impairment	1.0	1.2
Share option expense	0.1	0.2
Unrealised foreign exchange on intercompany trading balances	-	0.1
Non-recurring items	(0.2)	-
Total operating expense	6.9	6.6

Other operating expenses were £5.4 million (H1 2017: £4.9 million) and include sales, marketing, product development and administration expenses. The Group has invested in go-to-market capacity by recruiting quota-carrying sales and pre-sales personnel during the period, which has resulted in the strengthening of the order book and pipeline. This increase in expense has been partially offset by the impact of IFRS 16 with operating lease costs being accounted for as interest and amortisation rather than part of other operating expenses as outlined in note 3.

Adjusted EBITDA excludes amortisation and impairment, depreciation, share option expense, unrealised foreign exchange gains/losses on intercompany trading balances and non-recurring items and is reported as it reflects the performance of the Group. Adjusted EBITDA loss for the period was £1.1 million loss (H1 2017: £0.2 million loss).

The operating loss for the period was £2.7 million (H1 2017: £1.9 million).

EPS and dividends

Adjusted diluted loss per share was 3.9 pence (H1 2017: 2.7 pence loss). Reported basic and diluted loss per share was 3.8 pence (H1 2017: 3.3 pence loss). The Board does not feel it appropriate at this time to commence paying dividends.

Impact of IFRS 15 and IFRS 16

IFRS 15 Revenue from Contracts with Customers has replaced IAS 18 Revenue. The new standard has been adopted from 1 January 2018. IFRS 15 introduces a number of new concepts and requirements, and also provides guidance and clarification on existing practice.

IFRS 16 Leases will replace IAS 17 and three related interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability. The consolidated statement of comprehensive income will be impacted through reduced operating expenses, and higher depreciation and finance costs. The new standard is applicable from 1 January 2019 but the Group have adopted the standard from 1 January 2018.

The impact of the adoption of IFRS 15 and IFRS 16 on the results for the period ended 30 June 2018 has been disclosed in detail within note 3 to the financial statements. In summary, implementation of IFRS 15 has had minimal revenue impact, whilst the impact of IFRS 16 has been to reduce operating expenses and increase adjusted EBITDA by £0.3 million for the 6 months ending 30 June 2018.

Balance sheet, cash and cash flow

Cash held on the balance sheet at 30 June 2018 was £5.8 million (31 December 2017: £9.1 million, 30 June 2017: £6.5 million) and net funds at 30 June 2018 were £4.0 million (31 December 2017: £6.6 million, 30 June 2017: £3.2 million).

The net cash outflows from operating activities were £1.3 million for the period to 30 June 2018 (H1 2017: inflow of £4.2 million).

Capital structure

The issued share capital at 30 June 2018 was 73,087,904 ordinary shares of £0.02 each. Share options were granted to one employee in the six-month period ended 30 June 2018, and the total number of unexercised share options at 30 June 2018 was 6,583,722.

Risks and uncertainties

The Board continuously assesses and monitors the key risks of the business. The key risks that could affect the Group's performance, and the factors which mitigate these risks, have not significantly changed from those set out on pages 23 to 25 of the Group's Annual Report for 2017 (a copy of which is available from our website **www.ubisense.net**).

Consolidated income statement

For the six months ended 30 June 2018

	Notes	6 months to 30 June 2018 unaudited £'000	6 months to 30 June 2017 unaudited £'000	12 months to 31 December 2017 audited £'000
Revenues	5	**10,329**	12,380	27,255
Cost of revenues		**(6,099)**	(7,676)	(16,398)
Gross profit		**4,230**	4,704	10,857
Operating expenses		**(6,947)**	(6,621)	(13,912)
Operating loss		**(2,717)**	(1,917)	(3,055)
Analysed as:				
Gross profit		**4,230**	4,704	10,857
Other operating expenses		**(5,373)**	(4,909)	(10,492)
Adjusted EBITDA		**(1,143)**	(205)	365
Depreciation		**(605)**	(165)	(417)
Amortisation of other intangible assets		**(1,003)**	(1,253)	(2,435)
Share option expense		**(159)**	(161)	(316)
Unrealised foreign exchange losses on intercompany trading balances		**(54)**	(133)	(252)
Non-recurring items	6	**247**	-	-
Operating loss		**(2,717)**	(1,917)	(3,055)
Net finance costs		**(84)**	(17)	(79)
Loss before tax		**(2,801)**	(1,934)	(3,134)
Income tax		**9**	61	61
Loss for the period		**(2,792)**	(1,873)	(3,073)
Loss attributable to:				
Equity shareholders of the Company		**(2,792)**	(1,827)	(3,055)
Non-controlling interest		**-**	(46)	(18)
		(2,792)	(1,873)	(3,073)
Loss per share attributable to equity shareholders of the parent (pence)				
Basic	7	**(3.8)**	(3.3)	(5.2)
Diluted	7	**(3.8)**	(3.3)	(5.2)

The notes 1 to 12 are an integral part of these condensed interim financial statements.

Ubisense

Consolidated statement of comprehensive income

For the six months ended 30 June 2018

	6 months to 30 June 2018 unaudited £'000	6 months to 30 June 2017 unaudited £'000	12 months to 31 December 2017 audited £'000
Loss for the period	**(2,792)**	(1,873)	(3,073)
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	**17**	23	(33)
Total comprehensive income for the period	**(2,775)**	(1,850)	(3,106)

Consolidated statement of changes in equity

For the six months ended 30 June 2018

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Translation reserve £'000	Retained earnings £'000	Subtotal £'000	Non-controlling interest £'000	Total £'000
Balance at 1 January 2017	**1,118**	**41,554**	**823**	**(2,025)**	**(32,192)**	**9,278**	**473**	**9,751**
Loss for the period	-	-	-	-	(1,827)	(1,827)	(46)	**(1,873)**
Exchange difference on retranslation of net assets and results of overseas subsidiaries	-	-	-	28	-	28	(5)	**23**
Total comprehensive income for the period	-	-	-	28	(1,827)	(1,799)	(51)	**(1,850)**
Reserve credit for equity-settled share-based payment	-	-	161	-	-	161	-	**161**
Premium on new share capital	-	1	-	-	-	1	-	**1**
Transactions with owners	-	1	161	-	-	162	-	**162**
Balance at 30 June 2017 (unaudited)	**1,118**	**41,555**	**984**	**(1,997)**	**(34,019)**	**7,641**	**422**	**8,063**
Loss for the period	-	-	-	-	(1,228)	(1,228)	28	**(1,200)**
Exchange difference on retranslation of net assets and results of overseas subsidiaries	-	-	-	(40)	-	(40)	(16)	**(56)**
Total comprehensive income for the period	-	-	-	(40)	(1,228)	(1,268)	12	**(1,256)**
Reserve credit for equity-settled share-based payment	-	-	155	-	-	155	-	**155**
Issue of new share capital	344	-	-	-	-	344	-	**344**
Premium on new share capital	-	5,157	-	-	-	5,157	-	**5,157**
Share issue costs	-	(337)	-	-	-	(337)	-	**(337)**
Transactions with owners	344	4,820	155	-	-	5,319	-	**5,319**
Balance at 31 December 2017	**1,462**	**46,375**	**1,139**	**(2,037)**	**(35,247)**	**11,692**	**434**	**12,126**
Adjustment on initial application of IFRS 15 (net of tax)	-	-	-	-	(13)	(13)	-	(13)
Adjusted balance at 1 January 2018	**1,462**	**46,375**	**1,139**	**(2,037)**	**(35,260)**	**11,679**	**434**	**12,113**
Loss for the period	-	--	-	-	(2,792)	(2,792)	-	**(2,792)**
Exchange difference on retranslation of net assets and results of overseas subsidiaries	-	-	-	17	-	17	-	**17**
Total comprehensive income for the period	-	-	-	17	(2,792)	(2,775)	-	**(2,775)**
Reserve credit for equity-settled share-based payment	-	-	159	-	-	159	-	**159**
Acquisition of non-controlling interest	-	-	-	-	282	282	(434)	**(152)**
Transactions with owners	-	-	159	-	282	441	(434)	**7**
Balance at 30 June 2018 (unaudited)	**1,462**	**46,375**	**1,298**	**(2,020)**	**(37,770)**	**9,345**	**-**	**9,345**

Ubisense

Consolidated statement of financial position

At 30 June 2018

	Notes	At 30 June 2018 unaudited £'000	At 30 June 2017 unaudited £'000	At 31 December 2017 audited £'000
Assets				
Non-current assets				
Intangible assets	8	**2,812**	3,187	2,962
Property, plant and equipment	9	**3,157**	650	493
Total non-current assets		**5,969**	3,837	3,455
Current assets				
Inventories		**1,742**	1,567	1,459
Trade and other receivables		**7,602**	7,028	10,544
Cash and cash equivalents		**5,788**	6,485	9,114
Total current assets		**15,132**	15,080	21,117
Total assets		**21,101**	18,917	24,572
Liabilities				
Current liabilities				
Bank loans	10	**(750)**	(750)	(750)
Operating lease liability		**(817)**	-	-
Trade and other payables		**(6,578)**	(6,765)	(9,211)
Total current liabilities		**(8,145)**	(7,515)	(9,961)
Non-current liabilities				
Deferred income tax liability		**(500)**	(617)	(516)
Trade and other payables		**(40)**	-	(40)
Bank loans	10	**(1,000)**	(2,500)	(1,750)
Operating lease liability		**(1,928)**	-	-
Other payables		**(143)**	(222)	(179)
Total non-current liabilities		**(3,611)**	(3,339)	(2,485)
Total liabilities		**(11,756)**	(10,854)	(12,446)
Net assets		**9,345**	8,063	12,126
Equity attributable to owners of the parent company				
Ordinary share capital	11	**1,462**	1,118	1,462
Share premium		**46,375**	41,555	46,375
Share based payment reserve		**1,298**	984	1,139
Translation reserve		**(2,020)**	(1,997)	(2,037)
Retained earnings		**(37,770)**	(34,019)	(35,247)
Equity attributable to owners of the parent company		**9,345**	7,641	11,692
Non-controlling interests		**-**	422	434
Total equity		**9,345**	8,063	12,126

Consolidated statement of cash flows

For the six months ended 30 June 2018

	Notes	6 months to 30 June 2018 unaudited £'000	6 months to 30 June 2017 unaudited £'000	12 months to 31 December 2017 audited £'000
Loss before tax		**(2,801)**	(1,934)	(3,134)
Adjustments for:				
Depreciation		**605**	165	417
Amortisation and impairment		**1,003**	1,253	2,435
Loss on disposal of property, plant and equipment		**-**	2	2
Revaluation of intercompany balances		**54**	133	252
Share-based payment charge		**159**	161	316
Non-recurring items	6	**(247)**	-	-
Finance income		**(6)**	(16)	(8)
Finance costs		**90**	33	87
Operating cash flows before working capital movements		**(1,143)**	(203)	367
Change in inventories		**(283)**	(503)	(395)
Change in receivables		**2,785**	6,196	2,678
Change in payables		**(2,571)**	(1,252)	987
Cash used in operations before tax		**(1,212)**	4,238	3,637
Net income taxes received/(paid)		**(107)**	(7)	(14)
Net cash flows from operating activities		**(1,319)**	4,231	3,623
Cash flows from investing activities				
Purchases of property, plant and equipment		**(247)**	(54)	(140)
Payment of contingent consideration		**-**	(197)	(197)
Expenditure on intangible assets		**(880)**	(842)	(1,813)
Purchase of minority interest		**(152)**	-	-
Sale of Japanese business		**417**	-	-
Interest received		**6**	16	8
Net cash flows from investing activities		**(856)**	(1,077)	(2,142)
Cash flows from financing activities				
Repayment of borrowings		**(750)**	-	(750)
Interest paid		**(59)**	(56)	(110)
Principal payments under capital lease obligations		**(273)**	-	-
Proceeds from the issue of share capital		**-**	1	5,165
Net cash flows from financing activities		**(1,082)**	(55)	4,305
Net (decrease)/increase in cash and cash equivalents		**(3,257)**	3,099	5,786
Cash and cash equivalents at start of period		**9,114**	3,498	3,498
Exchange differences on cash and cash equivalents		**(69)**	(112)	(170)
Cash and cash equivalents at end of period		**5,788**	6,485	9,114

The notes 1 to 12 are an integral part of these condensed interim financial statements.

Notes to the interim consolidated 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 and improve productivity.

The Group has operations in the UK, USA, Canada, France, Germany and Japan, selling mainly to customers 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 26 September 2018.

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 2017 were approved by the Board of Directors on 14 March 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain a material uncertainty related to going concern 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 New Standards adopted as at 1 January 2018

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 9 'Financial Instruments'

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The adoption of IFRS 9 which became effective from 1 January 2018 and has therefore been adopted does not have a significant impact on the Group's financial results or position.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 Revenue from Contracts with Customers has replaced IAS 18 Revenue. The new standard is applicable from 1 January 2018. IFRS 15 introduces a number of new concepts and requirements relating to revenue recognition and also provides guidance and clarification on existing practice. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

In applying IFRS 15, hardware and certain software revenues within the SmartSpace division are deferred until the customer is in control of both the hardware and software components provided by Ubisense. As at 30 June 2018 there were significant ongoing customer contracts and due to adverse weather conditions delaying delivery of hardware, the associated hardware and software revenues on these contracts were deferred into the second half of 2018.

The conclusion of management's assessment of the adoption of IFRS15 on contracts which were incomplete as at 1 January 2018 is as follows:

- In applying IFRS 15 to contracts with were incomplete as at 1 January 2018, revenue of £15,000 which had been previously reported within the 2017 financial year is deferred into the six month period ended 30 June 2018 due to the timing of delivery of hardware within the SmartSpace division.
- Hardware costs of £2,000 associated with SmartSpace contracts which were incomplete as at 1 January 2018, are deferred into the six month period ended 30 June 2018.
- No adjustment has been made to defer the incremental costs of obtaining customer contracts, such as commission payments, as these costs would be amortised over a period of one year or less. Management have applied the practical expedient permitted under IFRS 15 in reaching this conclusion.
- As a result of these adjustments, £13,000 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. Within the results for the six months ended 30 June 2018, revenues have increased £15,000 and cost of sale has increased by £2,000.

The Group's revenue policies under IFRS 15 are as follows:

For sales within the SmartSpace division, the Group contracts with customers to provide software, maintenance & support, hardware or services. For sales within the Geospatial division, the Group contracts with customers to provide software, maintenance & support, or services. The contractual arrangements may be to provide one of these elements on a standalone basis or to provide a combination of the above. For sales including a combination of some or all of the above, the distinct performance obligations are identified and revenue is allocated. Regardless of if the elements are sold on a standalone basis or as part of a combination, the timing of revenue recognition is as follows:

Software – SmartSpace division

SmartSpace operates as standalone software that can be used to identify and manage assets in real time through the collection of data. Smartspace integrates with Ubisense's own hardware or can be used alongside third party products. Smartspace software is sold under a perpetual licence arrangement and is recognised when the software is made available to the customer for use.

Additionally, the Group sells software that is required to allow Ubisense's own hardware to operate. Accordingly, this software is only sold alongside hardware. Revenue is recognised at the point that the software has been made available to the customer and as the associated hardware becomes under the control of the customer, which is generally on delivery to the customer's premises.

Software – Geospatial division

Revenue earned from myWorld software sales under perpetual licence agreements with maintenance and support is recognised when the software is made available to the customer for use. Revenue earned from myWorld software sold as a subscription is recognised over the period of the contract, which is generally one year, commencing from when the software is available for use.

If contracts include performance obligations which result in software being customised or altered, the software cannot be considered distinct from the labour service. Revenue recognition is dependent on the contract terms and assessment of whether the performance obligation is satisfied over time. If the conditions of IFRS15 are not satisfied, revenue is deferred until the software is available for customer use.

Maintenance and support – Geospatial and SmartSpace business units

Maintenance and support is recognised on a straight-line basis over the term of the contract, which is typically one year. Revenue not recognised in the consolidated income statement is classified as deferred revenue on the consolidated statement of financial position.

Hardware – SmartSpace business unit only

Revenue is recognised at the point that the hardware supplied becomes under the control of the customer. This is generally on delivery to the customer's premises.

Services – Geospatial and SmartSpace business units

Services revenue includes consultancy, installation of hardware and training. Services revenue from time and materials contracts is recognised in the period that the services are provided on the basis of time worked at agreed contractual rates and as direct expenses are incurred.

Revenue from fixed price, long-term customer specific contracts is recognised on the stage of completion of each assignment at the period end date compared to the total estimated service to be provided over the entire contract where the outcome can be estimated reliably. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered. An expected loss on a contract is recognised immediately in the income statement.

IFRS 16 'Leases'

IFRS 16 Leases will replace IAS 17 and three related interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability. The consolidated statement of comprehensive income will be impacted through reduced operating expenses, and higher depreciation and finance costs. The new standard is applicable from 1 January 2019 with an option to adopt it early.

The Group has early adopted IFRS 16 effective from 1 January 2018.

The Group's accounting policies under IFRS 16 are as follows:

The policy applies to properties and cars where the Group has substantially all of the economic benefits from use of the asset. On adoption of the standard, a right-of-use asset and lease liability has been created.

The right-of-use asset is depreciated over the lease-term and if necessary impaired in accordance with applicable standards. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (application of the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The standard allows two options for adoption – fully retrospective and modified retrospective. The Group has elected to take the modified retrospective approach. As a result of this the Group has:

- recognised a lease liability at 1 January 2018 for leases previously classified as operating leases applying IAS 17. The Group has measured lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.
- recognised a right-of-use asset at 1 January 2018 for leases previously classified as operating leases applying IAS 17. The Group has chosen to measure right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the statement of financial position as at 31 December 2017.
- 2017 comparatives are left unchanged, and any opening adjustment to net assets was recognised on 1 January 2018.

The modified retrospective approach also allows a number of practical expedients which the Group has made use of:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics, being 3.5%.
- Reliance on an assessment of whether a lease is onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review using the principles in IAS 36 Impairment of Assets.

As noted above, no comparatives are given for the adoption of IFRS 16. The Group has calculated that the right of use asset recognised and corresponding liability as at 1 January 2018 is £3.0m. The impact on adoption within the results for the six months ended 30 June 2018 is as follows:

- Finance costs have increased by £0.1m due to interest charges on the lease liability.
- Depreciation expense has increased by £0.5m due to depreciation of the right-of-use asset.
- EPS has decreased by 0.3p per share.
- Adjusted EBITDA has improved by £0.3m due to reduction of rental expense.

The lease commitments as at 1 January 2018 were as follows;

	Land and buildings £,000	Other £,000	Total £,000
No later than one year	681	94	775
Less than one year and no later than five years	1,513	10	1,523
Later than five years	982	-	982
Total	3,176	104	3,280

The opening lease liability is reconciled to the table of lease commitments as follows:

	Total £,000
Lease commitment as at 1 January 2018	3,280
Interest to be unwound over the lease term	(381)
Dilapidations provision recognised	103
Opening lease liability and right of use asset at 1 January 2018	3,002

4 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 2017, except for the effects of applying IFRS 9, IFRS 15 and IFRS 16.

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.

5 Segmental information

5.1 Operating segments

Management has determined the operating segments to be the Group's business units based on the information reported to the Chief Operating Decision Maker (CODM) for the purpose of assessing performance and allocating resources. The CODM is the Chief Executive Officer.

The SmartSpace division takes real-time location data from Ubisense's own sensing hardware, or from standards based integration with third party hardware, and transforms this data into high value spatial event information, delivering highly reliable, automatic, adaptive asset identification, precise real-time location and spatial-monitoring to offer meaningful insights that help businesses make smarter decisions.

The Geospatial division delivers myWorld software solutions that integrate data from any source – geographic, real-time asset, GPS, location, corporate and external cloud-based sources – into a live geospatial common operating picture, empowering all users in the customer's organisation to access, input and analyse operational intelligence to proactively manage their networks, respond quickly to emergency events and effectively manage day-to-day operations. Additionally services are provided in connection with third party products.

Each operating segment is managed separately by a business unit leader as each deals with different technologies and predominately a different customer base. The performance of the operating segments is assessed on a measure of contribution, being gross profit less sales and business unit marketing expenditure. Assets and liabilities are not presented to the CODM on a divisional basis.

Costs incurred centrally or not directly attributable to either the SmartSpace or Geospatial business units are reported in the Central division. The results of each segment are prepared using accounting policies consistent with those of the Group as a whole. No intra-segmental transactions are reported.

6 months ended 30 June 2018	SmartSpace £'000	Geospatial £'000	Central £'000	Total £'000
Revenue	**4,630**	**5,699**	**-**	**10,329**
Cost of sales	(2,869)	(3,230)	-	(6,099)
Gross profit	**1,761**	**2,469**	**-**	**4,230**
Sales and marketing costs	(1,692)	(1,182)	-	(2,874)
Contribution	**69**	**1,287**	**-**	**1,356**
Other operating costs			(2,499)	(2,499)
Adjusted EBITDA			**(2,499)**	**(1,143)**
Amortisation and impairment of intangibles			(1,003)	(1,003)
Depreciation			(605)	(605)
Share option expense			(159)	(159)
Unrealised foreign exchange losses on intercompany trading balances			(54)	(54)
Non-recurring items			247	247
Operating loss			**(4,073)**	**(2,717)**
Net finance costs			(84)	(84)
Loss before tax			**(4,157)**	**(2,801)**

5 Segmental information (continued)

6 months ended 30 June 2017	SmartSpace £'000	Geospatial £'000	Central £'000	Total £'000
Revenue	**4,372**	**8,008**	**-**	**12,380**
Cost of sales	(2,975)	(4,701)	-	(7,676)
Gross profit	**1,397**	**3,307**	**-**	**4,704**
Sales and marketing costs	(1,412)	(894)	-	(2,306)
Contribution	**(15)**	**2,413**	**-**	**2,398**
Other operating costs			(2,603)	(2,603)
Adjusted EBITDA			**(2,603)**	**(205)**
Amortisation and impairment of intangibles			(1,253)	(1,253)
Depreciation			(165)	(165)
Share option expense			(161)	(161)
Unrealised foreign exchange losses on intercompany trading balances			(133)	(133)
Operating loss			**(4,315)**	**(1,917)**
Net finance costs			(17)	(17)
Loss before tax			**(4,332)**	**(1,934)**

12 months ended 31 December 2017	SmartSpace £'000	Geospatial £'000	Central £'000	Total £'000
Revenue	**10,796**	**16,459**	**-**	**27,255**
Cost of sales	(6,310)	(10,088)	-	(16,398)
Gross profit	**4,486**	**6,371**	**-**	**10,857**
Sales and marketing costs	(3,062)	(2,004)	-	(5,066)
Contribution	**1,424**	**4,367**	**-**	**5,791**
Other operating costs			(5,426)	(5,426)
Adjusted EBITDA			**(5,426)**	**365**
Amortisation and impairment of intangibles			(417)	(417)
Depreciation			(2,435)	(2,435)
Share option expense			(316)	(316)
Unrealised foreign exchange losses on intercompany trading balances			(252)	(252)
Operating loss			**(8,846)**	**(3,055)**
Net finance costs			(79)	(79)
Loss before tax			**(8,925)**	**(3,134)**

5 Segmental information (continued)

5.2 Revenue by geography

The Board and Management Team also review the revenues on a geographical basis, based around the regions where the Group has its significant subsidiaries or markets.

The Group's revenue from external customers in the Group's domicile, the UK, and its major worldwide markets have been identified on the basis of the customers' geographical location.

	6 months to 30 June 2018 unaudited £'000	6 months to 30 June 2017 unaudited £'000	12 months to 31 December 2017 audited £'000
United Kingdom	**28**	251	383
Germany	**2,095**	3,902	8,218
France	**65**	201	303
Europe other	**815**	253	554
USA	**4,540**	4,917	10,954
Canada	**1,011**	922	2,845
Japan	**1,675**	1,737	3,545
Asia Pacific other	**98**	43	187
Rest of World	**2**	154	266
Total revenues	**10,329**	12,380	27,255

6 Non-recurring items

	6 months to 30 June 2018 unaudited £'000	6 months to 30 June 2017 unaudited £'000	12 months to 31 December 2017 audited £'000
Sale of Japanese business	**247**	-	-
Total non-recurring items	**247**	-	-

On 30 March 2018, the group concluded the sale of its Japanese third party geospatial services business including the Geoplan brand name for a gross consideration of JPY 100m (£0.7m).

Alongside this transaction, Ubisense agreed to acquire the 23% minority interest of Geoplan Company Limited. The acquisition of this non-controlling interest gave the Group 100% ownership of its remaining Japanese operations. Geoplan Company Limited has been renamed Ubisense Japan K.K.

7 Earnings per share

	6 months to 30 June 2018 unaudited	6 months to 30 June 2017 unaudited	12 months to 31 December 2017 audited
Earnings			
Loss for the period (£'000)	**(2,792)**	(1,827)	(3,055)
Loss for the purposes of diluted earnings per share (£'000)	**(2,792)**	(1,827)	(3,055)
Number of shares			
Basic weighted average number of shares ('000)	**73,088**	55,883	58,479
Effect of dilutive potential ordinary shares:			
- Share options ('000)	**230**	230	215
Diluted weighted average number of shares ('000)	**73,318**	56,113	58,694
Basic loss per share (pence)	**(3.8)**	(3.3)	(5.2)
Diluted loss per share (pence)	**(3.8)**	(3.3)	(5.2)

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 2018 and 2017 and 31 December 2017 is the same as the basic loss per share.

The Group also presents an adjusted diluted earnings per share figure which excludes share-based payments charge, unrealised foreign exchange gains/losses on intercompany trading balances and non-recurring expenditure from the measurement of profit for the period.

Adjusted diluted earnings per share	6 months to 30 June 2018 unaudited	6 months to 30 June 2017 unaudited	12 months to 31 December 2017 audited
Loss for the purposes of diluted earnings per share (£'000)	**(2,792)**	(1,827)	(3,055)
Adjustments			
Reversal of share-based payments charge (£'000)	**159**	161	316
Reversal of unrealised foreign exchange gains/losses on intercompany trading balances	**54**	133	252
Sale of Japanese business	**(247)**	-	-
Net adjustments (£'000)	**(34)**	294	568
Adjusted earnings (£'000)	**(2,826)**	(1,533)	(2,487)
Adjusted diluted loss per share (pence)	**(3.9)**	(2.7)	(4.3)

8 Intangible assets

Net book amount	At 30 June 2018 unaudited £'000	At 30 June 2017 unaudited £'000	At 31 December 2017 audited £'000
Capitalised product development costs	**2,628**	3,028	2,716
Software	**184**	159	246
Total intangible assets	**2,812**	3,187	2,962

9 Property, plant and equipment

Net book amount	At 30 June 2018 unaudited £'000	At 30 June 2017 unaudited £'000	At 31 December 2017 audited £'000
Fixtures and fittings	**473**	486	342
Computer equipment	**172**	164	151
Capitalised operating leases	**2,512**	-	-
Total property, plant and equipment	**3,157**	650	493

10 Bank loans

In October 2016, an £8.0 million HSBC working capital facility was restructured, becoming a £4.0 million repayment loan with £0.75 million repayable each year. £0.75 million of this facility was repaid in each of December 2016, December 2017 and January 2018.

This loan is secured on the fixed and floating assets of the Group, attracts an interest charge of LIBOR + 3% and is subject to an operating covenant linked to "operating cash flow" performance (profit or loss before tax adding back any non-recurring items, finance costs, foreign exchange costs, share based payments, depreciation, amortisation or capitalisation of product development). Following the placing in November 2017, the terms of the operating covenant were agreed as follows: 2018 - £2 million negative; 2019 - £1 million negative, 2020 and beyond –£1m positive.

The covenants require future repayments of £187,500 each quarter starting on 31 March 2019.

11 Share capital

Allotted, called-up and fully paid	At 30 June 2018 unaudited £'000	At 30 June 2017 unaudited £'000	At 31 December 2017 audited £'000
Ordinary shares of £0.02 each	**1,462**	1,118	1,462

Movement in number of shares	At 30 June 2018 unaudited £'000	At 30 June 2017 unaudited £'000	At 31 December 2017 audited £'000
Number of shares at beginning of period	**73,087,904**	55,883,154	55,883,154
Issued under placing to institutional shareholders	**-**	-	17,187,500
Issued under share-based payment plans	**-**	7,500	17,250
Change in number of shares in period	**-**	7,500	17,204,750
Number of shares at end of period	**73,087,904**	55,890,654	73,087,904

12 Share options

On 14 December 2016 Ubisense Group plc implemented a long-term incentive share option plan for Executive Directors and key management. Ubisense Group plc granted 5,600,000 options of two pence each in the Company with an exercise price set at the nominal value. The options vest if the Company's share price exceeds 70p for 60 consecutive calendar days between the 2nd and 3rd anniversary of issue and the period of employment continues for over three years.

During the first half of 2018, 350,000 share options were issued at market value. The new share options were valued using a Black-Scholes valuation model. The expected life is the expected period from grant to exercise based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. The risk-free return is an average yield on the zero-coupon UK Government Bond in issue at the date of grant with a similar life to the option.

At 30 June 2018, the Group had the following share-based payment arrangements.

Arrangement	Award date Year	Vests Years	Expires Year	Exercise price £	Awards outstanding at 1 Jan 2018 Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	**Awards outstanding at 30 Jun 2018 Number**	Awards exercisable at 30 Jun 2018 Number
Options										
	2010	2011-13	2020	0.140	**322,672**	-	-	(1,000)	**321,672**	321,672
	2011	2012-14	2021	1.050	**108,700**	-	-	(7,000)	**101,700**	101,700
	2012	2013-15	2022	2.125	**75,500**	-	-	(5,000)	**70,500**	70,500
	2013	2014-16	2023	2.055	**93,600**	-	-	(8,750)	**84,850**	84,850
	2014	2015-17	2024	2.250	**65,000**	-	-	(10,000)	**55,000**	55,000
	2016	2017-19	2026	0.020	**5,600,000**	-	-	-	**5,600,000**	-
	2018	2019-21	2028	0.555	**-**	350,000	-	-	**350,000**	-
Total					**6,265,472**	**350,000**	**-**	**(31,750)**	**6,583,722**	633,722
Weighted average exercise price (£)					0.123	0.555	-	1.846	0.138	0.946

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 2018 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, consolidated statement of cash flows and the related explanatory 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 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 2018 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

26 September 2018