Ubisense

Ubisense Group Plc Annual Report 2015

# Location Intelligence Solutions

# Ubisense is a global leader in Enterprise Location Intelligence Solutions.

**Operating through two Divisions – Real-Time Location Systems (RTLS) and Geospatial – we deliver best-in-class asset location solutions that significantly improve operational effectiveness and profitability for businesses around the world.**

**Strategic report**


| | |
|---|---|
| Highlights | 1 |
| What we do – at a glance | 2 |
| Chairman's statement | 4 |
| Chief Executive's statement | 6 |
| Strategic focus | 8 |
| Business model | 10 |
| Financial review | 12 |
| Key performance indicators | 15 |
| Divisional delivery – RTLS | 16 |
| Divisional delivery – Geospatial | 20 |
| Corporate social responsibility | 24 |
| Principal risks and uncertainties | 25 |


**Corporate governance**


| | |
|---|---|
| Board of Directors | 28 |
| Corporate governance report | 30 |
| Directors' report | 34 |
| Directors' responsibilities statement | 36 |


**Financial statements**


| | |
|---|---|
| Independent auditor's report | 37 |
| Consolidated income statement | 38 |
| Consolidated statement of comprehensive income | 39 |
| Consolidated statement of changes in equity | 40 |
| Consolidated statement of financial position | 41 |
| Consolidated statement of cash flows | 43 |
| Notes to the consolidated financial statements | 44 |
| Independent auditor's report | 74 |
| Company balance sheet | 75 |
| Company statement of changes in equity | 76 |
| Notes to the Company financial statements | 77 |
| Advisers | 80 |
| Shareholder information | 81 |

# Strategic highlights

- **2015:** A challenging year with lower than anticipated revenues against an increased, but now restructured, cost base
- **Restructuring complete:** Decisive action taken to re-align and reduce costs by focusing on core geographies and markets, reassessing marketing strategy and reducing staff numbers
- **Key customer wins in both Divisions:** BMW Group, Ford, GM, John Deere, Magna Steyr, Nissan, Telus, Comporium and Nagoya Water.
- **Deeper customer relationships:** Substantial deployments into existing Utilities and Telecoms customers in North America and across a number of global Manufacturing clients
- **Geographic consolidation:** Further developed presence in Japan achieving first myWorld contract, while transitioning the South Korea and Singapore operations into partners
- **Partner channel successes:** Worked successfully with Atlas Copco across three major Automotive OEMs
- **Continued product development:** Investment in both product lines maintained, with the next generation Dimension 4 RTLS platform fully deployed in three major production environments, and the mobile enhanced Geospatial myWorld 3.0 released in February 2016

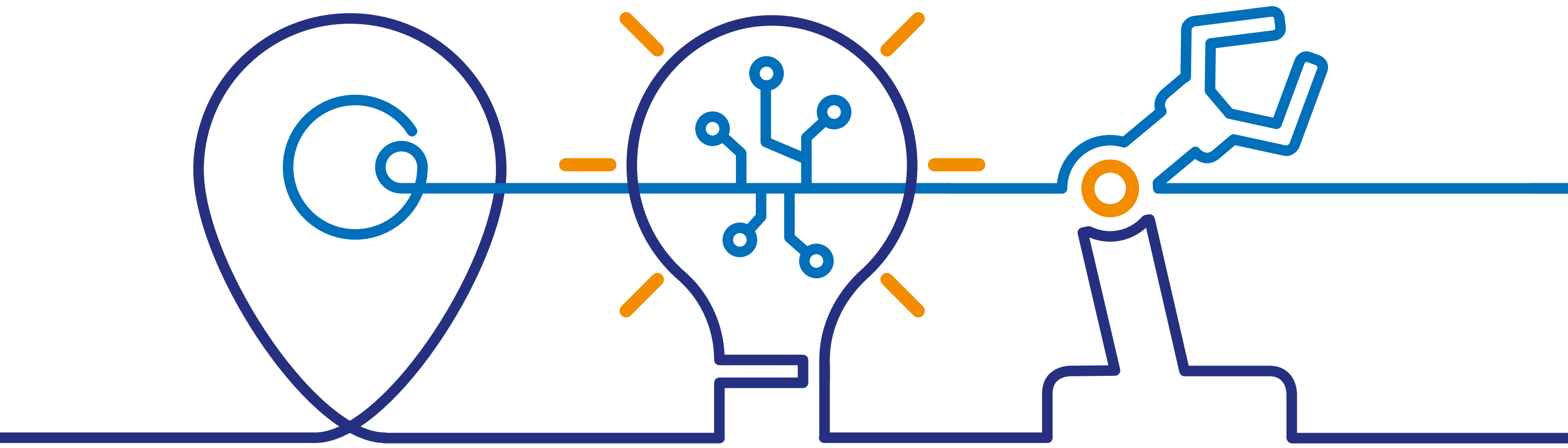
# Financial highlights

- Revenue declined 37.3% from £35.1 million to £22.0 million with the results achieved in the higher margin solutions revenues in both Divisions failing to offset the reduction in Geospatial sales, particularly in Europe
- Gross margin decreased to 35.0% (2014: 39.9%) driven by the timing of new contracts and the revenue mix between new solution sales, installation projects and the scale of Geospatial services
- Adjusted EBITDA* loss of £5.2 million (2014: £1.8 million profit) and further non-recurring costs of £4.1 million (2014: £1.1 million) and impairment charges of £4.0 million (2014: £1.3 million), led to an operating loss of £17.0 million (2014: £4.6 million)
- £10 million was raised from new and existing shareholders in May 2015 of which £2 million was used to pay down a bank loan. The remainder was used for restructuring, and the support and development of the business
- Cash balance was £5.4 million (2014: £3.7 million) and net debt £0.2 million (2014: £3.2 million)

* Measured as operating profit excluding depreciation, amortisation, share-based payments charge and non-recurring costs such as reorganisation costs, and acquisition costs.

## What we do – at a glance

# World leading solutions transforming location awareness into business intelligence



Our Enterprise Location Intelligence Solutions for Manufacturing, Logistics, Transit, Communication, and Utility companies solve real world problems for some of the world's best known businesses.

Our solutions leverage location data with other types of data from across the enterprise to enable some of the world's largest businesses to improve operational effectiveness, significantly increasing their profitability.

We unlock previously inaccessible intelligence and insight, which empower our customers to realise dramatic benefits in diverse application areas including tool control, logistics tracking, process analytics, quality management, network operations, field operations and asset management.

Our solutions help all levels and locations of users – from the operator to senior management to the boardroom – to achieve significant improvements, exploiting new operational possibilities by gaining visibility while leveraging their current best practices and procedures.

Ubisense has a proven track record of enabling companies to gain significant value from a single starting point, and seamlessly expand deployments to extend the value across a wide range of locations and operations.

Location is a significant factor for the operations of all our customers. Automotive manufacturers have large complex dynamic facilities where parts, product and machinery all interact to produce a finished product. Utilities and Telecommunications firms have vast networks of geographically dispersed assets which are managed by a mobile workforce. By leveraging location information all our customers are taking the next step in optimizing their business.

## Ubisense key facts

- **Ubisense and its partner ecosystem have deployed solutions in automotive, heavy manufacturing, healthcare, logistics, mass transit, entertainment, retail, telecommunications, water, gas and electricity utilities.**

# Real-Time Enterprise Location Platform

See page 16 for divisional delivery

At the heart of Ubisense's multiple award-winning Real-Time Location System (RTLS), is a flexible and highly configurable Enterprise Location Platform. This platform takes real-time location data from Ubisense's own best in class sensing hardware, or from standards-based integration with third party hardware, and transforms this data into high value spatial event information.

On top of this platform sits value adding applications such as Ubisense's Smart Factory, Smart Transit and Smart Healthcare, and a growing number of applications from our Partner Network. These applications deliver highly reliable, automatic, adaptive asset identification, precise real-time location and spatial-monitoring to offer meaningful insights that help businesses make smarter decisions.

## RTLS key facts

- **Ubisense's products are in operational use in mission critical situations across 10 of the 12 leading automotive manufacturers in the world**
- **Every day, more than 10,000 vehicles are manufactured with systems enabled by Ubisense**

# Geospatial

See page 20 for divisional delivery

Our flagship geospatial product is **myWorld**: a flexible software solution that integrates data from any source – Geographic, real-time asset, GPS, location, corporate and external cloud-based sources – into a live geospatial common operating picture.

**myWorld** empowers all users in the customer's organisation to access, input and analyse operational intelligence – whether they are online or offline, in the office or field.

It enables organisations to proactively manage their networks, respond quickly to emergency events, and more effectively manage day-to-day operations to reduce costs and improve customer experience.

## Geospatial key facts

- **Over 12,000 utility & telecoms professionals use our software everyday**
- **Our myWorld customers saved their operations & engineering teams 45 million minutes in 2015**

Chairman's statement

# How we've performed

**Peter Harverson**
Chairman

*"The task now is to leverage our best-in-class products and ensure we see a tangible return to profitability."*

2015 was a challenging year for Ubisense, in managing the impact of unprecedented market forces in key sectors and our continued transition to an enterprise solutions business. In response to reduced revenue expectations as the year progressed, we acted swiftly to increase focus on sales effectiveness and adjust our operating cost base to be better aligned to our revenues. These actions, alongside the proven performance enhancements and reduced costs we bring to customers, give us confidence that we can capitalise on growth opportunities whilst maintaining financial prudence.

## Reflections on 2015

As we entered 2015, we were investing heavily in marketing activities, growing the organisation and continuing to invest in new markets, with the full expectation that revenue would accelerate driving the profitable growth of the business.

The results for 2015 show that a combination of unforeseen external market forces, together with poor execution, led to a disappointing financial outcome. For the Real-Time Location Services (RTLS) Division, global economic concerns and, in particular, the damage done to German premium automotive suppliers, continue to resonate in the market but, encouragingly, orders continue to be received from these organisations even if at a lower level. For the Geospatial Division, customer commitment to our platform and applications remains strong with new deployments achieving rapid adoption, and the enhanced mobile capability with the next version release is generating good levels of customer interest.

## Strategy

We will achieve this by combining our direct sales efforts with those of our strategic partners such as Atlas Copco and leveraging our expanding network of reseller partners. Having restructured the business, we are confident that incremental revenue can be generated without further significant expansion of the cost base, whilst still allowing for the right level of investment in our products.

## Board of Directors

In June, Robert Parker stepped down as Chief Financial Officer, with Tim Gingell assuming his responsibilities as Interim Chief Financial Officer and Company Secretary.

October saw Andy Hopper signal his intention to leave the business at the end of the calendar year, officially stepping down as Chairman and Director of the Group on 31 December 2015. I would like to thank Andy for his hard work and commitment during his time with the Group.

Originally a Non-Executive Director of the Group, I was appointed Vice Chairman in April 2015 and officially took over from Andy as Chairman on 1 January 2016.

## Outlook

The business went through a difficult period in 2015 and market conditions remain challenging, so we continue to be prudent in our expectations of a recovery in the near term. With a renewed focus on sales and developing the partner channel, we have created a solid platform from which to grow in a profitable way on a more appropriately-sized cost base.

Whilst mindful of the challenging environment, we are well positioned to take advantage of the demand for our products and solutions in both Divisions, and first quarter revenues are marginally ahead of the prior year notwithstanding the significantly reduced costs base. We pride ourselves on hiring and developing the best location people in the business. I would like to take this opportunity to thank our staff for their on-going dedication and commitment during the restructuring and to express our gratitude for the support and patience of our shareholders.

**Peter Harverson**
Chairman
6 April 2016

Chief Executive's statement

# Positioning for the future

**Richard Green**
Chief Executive Officer

*"The opportunity for Ubisense continues to be considerable. Our proven products are in use across 10 of the 12 leading automotive manufacturers in the world, and over 12,000 utility and telecommunications professionals are using our software every day."*

Overall 2015 proved to be a disappointing year as the business was hit by weaker than expected demand at the same time that we were investing to grow both the organisation and our geographical reach. At the start of the year, we anticipated growing the organisational presence and reach into a market that showed signs of material expansion.

Last year, our strategic focus was on accelerating the growth of solutions sales with an increased proportion of software, whilst anticipating the decline in Geospatial revenues, particularly in Europe. The revenue growth required to offset this presented a significant challenge. Before the end of the first half, some delays in orders in the RTLS Division from large German premium automotive OEMs meant we had to reset our revenue expectations for the second half of the year. Once it became clear that we would not be able to recover the shortfall against the first half revenue expectations by the end of the year, we took decisive action to re-align our costs with the revised revenue expectations.

Our initiatives to refocus our resources on core geographies and markets and reduce our staff base are now complete. Our reset cost base means that we enter 2016 in a much better position to deliver organic growth of the business.

## Customer successes

The opportunity for Ubisense continues to be considerable. Our proven products are in use across 10 of the 12 leading automotive manufacturers in the world, and over 12,000 utility and telecommunications professionals are using our software every day.

Both Divisions of the business continued to expand their respective customer bases in the period. Wins were made with BMW Group, Ford, GM, John Deere, Magna Steyr, Nissan, Telus, Comporium and Nagoya Water and we extended our systems in our existing customer base with significant deployments in Utilities and Telecoms in North America and many of our global Manufacturing customers.

We have successfully built on our initial entry into Japan, an important strategic territory for us. In Geospatial, we won our first notable Japanese myWorld contract with Nagoya Water and, on the RTLS side, good progress was made building on proof of concept deployments at both Nissan and Toyota.

## Strategic partnerships

The Atlas Copco relationship delivered on three opportunities in Europe, Asia and the US, validating our strategy of scaling the business through partner channels. Other industrial vendors have also incorporated our technology into their wireless tools recognising the market opportunity with location intelligence enhancement. Other partners of note include intelligence (a NTT Data company), VLS and Noldus.

Additionally, a partnership has been developed for the myWorld platform with ONZO (a global provider of data science-based utility analytics solutions) which was signed in the early part of 2016.

## Product development

We made considerable investment in the development of the product lines of both Divisions in the year, recognising that continued investment in products is needed to support future growth.

DIMENSION4, our next generation RTLS platform, was fully deployed in three major production environments. The feedback has been very positive, leading to a significant improvement in product performance and installation efficiencies.

myWorld also continued on its development path with further integrations to legacy GIS systems from esri and Intergraph, as well as enhancing the mobile capability of the solution which is expected to deliver some key contract wins in 2016.

## Summary

We believe that with the business stabilised and a renewed focus on the two Divisions and their respective product lines, there is a considerable opportunity for us to both win new customers and provide additional solutions for our existing customers. We are, as ever, very grateful for the continued support of our stakeholders, and are committed to driving value for them in 2016 and beyond.

**Richard Green**
Chief Executive Officer
6 April 2016

Strategic focus

# Delivering on our strategy

## Ubisense is a global leader in Enterprise Location Intelligence Solutions for companies across the world.

**Our vision:**

To be the most widely adopted location intelligence software platform in our target markets - second to none.

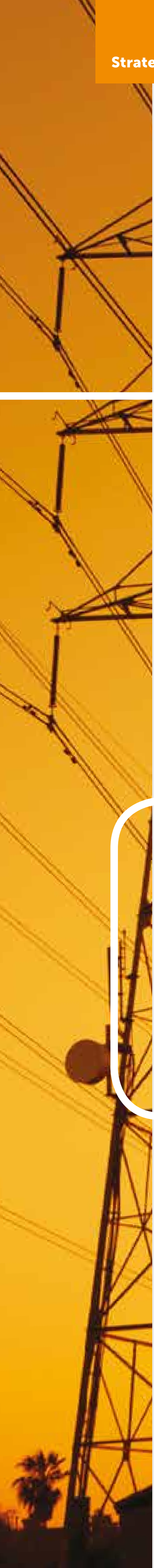
We help unlock previously inaccessible intelligence and insight to empower our customers to realise dramatic benefits in diverse application areas including vehicle manufacturing, network operations, field operations and asset management. Ubisense Enterprise Location Intelligence solutions are used by a number of blue-chip customers across the world such as Toyota, VW, Airbus, BMW, Telus, NiSource, Cablevision and Exelon.

Ubisense is headquartered in Cambridge, UK and has offices in the USA, Germany and Japan.

**Strategy**

The opportunity for Ubisense continues to be large. As a market-leading provider of location intelligence platform solutions to some of the world's leading blue-chip companies, with proven success and established products in two distinct and growing Divisions, the foundations are now in place to enable the Company to scale through partners.

Following what has been a year of considerable challenge for the Group, the Board's focus in the coming year is on returning to profitability through improving sales effectiveness in both Divisions across key territories and verticals combined with a prudent approach to managing operating costs.



# Our strategy in action....

**What**

- Build on our two specialised platforms: Geospatial & RTLS
- Build a scalable business platform by developing third-party channels

**Through having**

Best Location People in the Business → Great Customer Base → Proven Products in Real-Time Environments → Best-in-Class Platforms → Best Solutions for the Most Complex Customer Problems

**With focus on**

**Channel Business Growth**
Be able to scale by developing channel partners

**Sales Process and Focus**
Embedded across the Company

**Commercial Strategy**
Be focused on strategic delivery

**One Team**
Measurably improving performance

# Business development

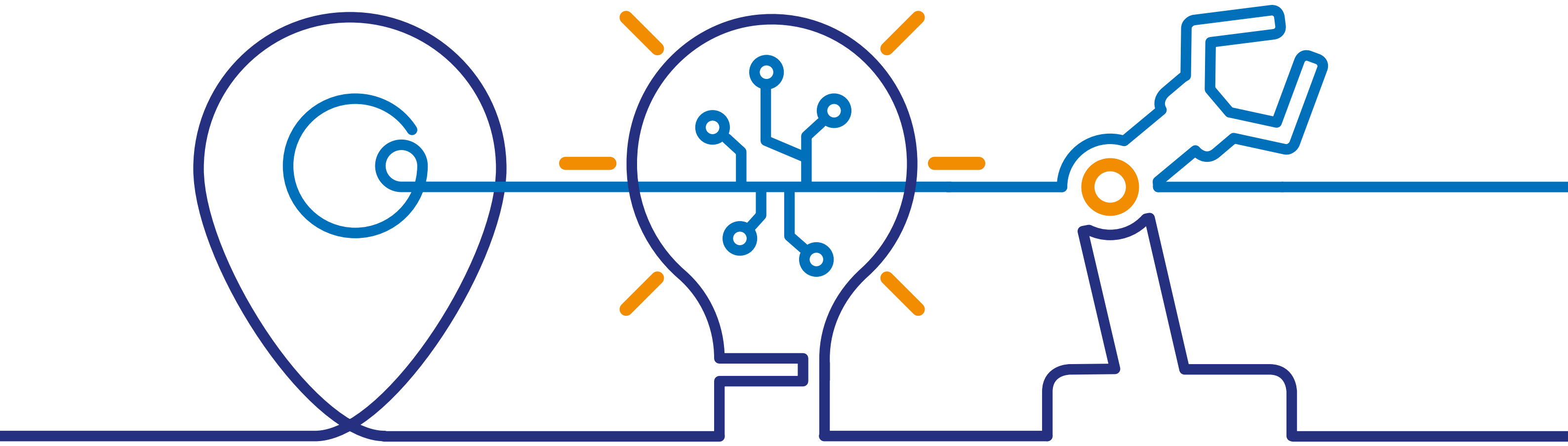
The Group's products are becoming generally accepted across its chosen industries and Ubisense, with its partners, is increasingly able to penetrate the target markets to deliver value-added applications that address the needs of verticals.

Our strategic acquisition in Japan has delivered early wins for the RTLS Division in global OEMs through partners such as Meiji Denki, further validating our approach in the market. Furthermore, the adoption of myWorld by Nagoya Water endorses its utility for the water industry in Japan.

The Group continues to invest in product development to deliver leading-edge location platforms upon which to build best in class applications.

## Business model

# How we add value



By pin-pointing the precise positions and status of a customer's assets, be they tools and products in a manufacturing assembly facility or equipment and cables in a distribution network, we can transform the efficiency of their processes – and therefore the profitability of their business.

Our products gather real-time data from a variety of sources, including our own sensor networks, existing monitoring systems, enterprise information systems and cloud-based systems.

Our applications provide the business logic to improve the customer processes, updating information systems, control systems and mobile devices in real-time.

**Industry leading technology**

Ubisense has already established very close commercial relationships with blue-chip customers in end markets, partnering with some of the world's most recognised and respected brands.

At the centre of this success has been the development of flexible and highly configurable software platform technologies which, whilst in the development phase, led to the identification of critical commercial applications in Automotive, Manufacturing, Telecom and Utilities where we have been extremely successful in using our first-mover IP advantage to build the market by creating and delivering new classes of value added services, which are now fully proven in the market.

**Addressable market opportunities**

The enterprise acceptance of our solutions has also accelerated allowing consumerisation of maps led by Google, the proliferation of smart devices, the growth in cloud technologies, Industry 4.0 and the modern device-to-device networking referred to as "Internet of Things". Ubisense's software products and services capability benefit from these trends, enabling enterprises to deliver significant improvements in quality, efficiency and cost savings.

### Blue-chip customer base

In growing these capabilities we have worked with some of the world's leading companies to address some of the most difficult and pressing business issues for the customer, thereby giving us a tremendous track record in delivery. The opportunity is to now build on this experience and growing market demand to expand the platform technologies and the range of applications that can be supported.

Alongside this, the opportunity to deliver across new vertical markets is significant. We have already identified and had success across not only Automotive, Manufacturing, Telecoms and Utilities, but are now gaining traction and increasing sales success in delivering applications in Healthcare, Mass Transit, Logistics and Entertainment where the flexibility, reliability and usability of the platforms have been a key determinant of success.

### Channel scalability

The success and strong customer traction so far has been established with a direct sales channel working alongside a growing and increasingly successful set of sales solution partners. The opportunity now is to expand the reseller channel to grow our vertical and geographical market presence, taking advantage of in-depth market knowledge, geographical coverage and considerably lower cost of sale that the development of the indirect channel would bring.

# Financial review

## Revenue

During the year the Group re-organised into two Divisions, RTLS and Geospatial, recognising the separate solutions and services, and targeting distinct sets of customers. The Group's strategy is outlined further in the Strategic report. Whilst we're organised as two separate Divisions supported by a central corporate team, the revenue streams are best understood as follows:

- Both Divisions sell solutions whereby revenues are those driven from the Ubisense product suites (RTLS – Smart Factory; Geospatial – myWorld), technical expertise and reseller arrangements. A solution sale will include a mixture of application software (licences in perpetuity and subscription based), installation and commissioning services, hardware (for RTLS) and maintenance and support. Margins in any given period will vary depending upon the mix and phase of the given set of solutions being delivered. The Group sees this revenue stream as key to driving the long-term growth and profitability of the business and there is a strategic shift towards this higher margin revenue stream.
- The Geospatial Division also generates services revenues which are those not involving the Ubisense product suites as defined above. These revenues are typically multi-year or annually renewed managed services contracts, consultancy and training. The Group generally has good visibility on future revenue from these services contracts, and drives customer loyalty in addition to providing a customer base into which it can sell its solutions.

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.

Total revenues fell 37.3% to £22.0 million (2014: £35.1 million). Within total revenues, the RTLS Division's revenue fell by 21.0% to £6.4 million (2014: £8.1 million) as a result of the commercial challenges suffered by the German automotive OEMs. Geospatial revenue fell by 42.6% to £15.5 million (2014: £27.0 million) primarily due to the reduction in low margin Geospatial services contracts in Europe.

Recurring revenues declined by 30.8% to £6.8 million (2014: £9.8 million) or 31.0% of total revenues (2014: 28.1%). £2.7 million of this was maintenance and support which decreased by 36.9% (2014: £4.2 million) and represents 12.1% of total revenues (2014: 12.0%).

As a global business with activities focused in Europe, North America and Asia Pacific, the reported results are subject to exchange rate volatility. During the period the GBP has weakened against the US Dollar, but strengthened against the Euro and Japanese Yen; currencies in which the Group derives a significant proportion of its revenues. If currency exchange rates had remained constant in 2015 compared to 2014, the Board estimates that Group reported revenues would have been £0.3 million higher at £22.2 million and the adjusted EBITDA loss £0.2m larger.

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.

## Orders

2015 saw a number of major new contract awards and extensions to existing contracts resulting in new orders for the period of £19.2 million (2014: £31.6 million). £5.1 million of this related to RTLS and £14.1 million to Geospatial.

The order book as at 31 December 2015 stood at £9.6 million (2014: £12.4 million), a 22.6% decrease from 2014. This reflects the Group's strategy to focus on sales of solutions in both Divisions, which provides a shorter lead time between order and revenue generation than Geospatial services, which in 2014 was significantly made up of multi-year contracts at lower margin.

## Gross margin

The gross margin fell from 39.9% in 2014 to 35.0% in 2015. This was as a result of the timing of new contracts and the revenue mix between sales of new solution contracts, implementation of installation projects and scale of Geospatial services.

## Operating expenses

Operating expenses increased by £6.1 million (32.8%) to £24.7 million (2014: £18.6 million).

Operating expenses includes sales, marketing, product marketing, product development, administration, depreciation, amortisation and foreign exchange and were increased in the first half of 2015 with an increase in marketing and headcount costs to match revenue expectations. Once it became clear that the expected revenue increase would not arise then the Group initiated a restructuring and streamlining of the organisation to reduce costs going forward.

The re-organisation programme included reverting to two Divisions, removing administration overheads, reducing marketing costs and headcount, disposal of non-core operations in South Korea, Singapore and the Philippines, and reducing certain business development activities, incurring non-recurring expenditure of £4.0 million split between cost saving £3.2 million (2014: £0.5 million) and disposal of non-core operations £0.8 million including a specific debtor provision, delivering £5.8 million of annualised cost reductions.

In total, the Group incurred non-recurring expenditure mainly relating to the reorganisation program of £4.1 million (2014: £1.1 million). Additionally, a provision for impairment of goodwill was made for £4.0 million recognising the challenging trading period that the Group had during 2015. Acquired intangible assets relating to Services revenues were not impaired during the year (2014: £1.3 million).

Gross expenditure on product development was £3.1 million (2014: £3.9 million) reflecting the continuing investment in our flagship Smart Factory and myWorld products. Capitalised product development costs at £2.5 million (2014: £3.0 million) represented 81% (2014: 75%) of gross development spend. Amortisation of the capitalised development costs remained at £2.6 million (2014: £2.6 million) as a result of significant investment in product development in recent years.

## EBITDA and operating profit

Group adjusted EBITDA for the period was a loss of £5.2 million (2014: £1.8 million profit). To provide a better guide to underlying business performance, adjusted EBITDA excludes non-recurring items along with depreciation, amortisation, interest and tax from the measure of profit.

Both the operating loss of £17.0 million (2014: £4.6 million) and the loss before tax of £17.3 million (2014: £4.8 million) includes amortisation/impairment charges of £7.2 million (2014: £5.0 million), depreciation charges of £0.4 million (2014: £0.4 million) and the non-recurring items noted above of £4.1 million (2014: £1.1 million).

## Interest and tax

Net interest payable for the period was £0.3 million (2014: £0.2 million) as a result of drawing down our HSBC and Mizuho bank loans.

The Group has a net tax credit of £0.6 million (2014: £0.7 million expense) as a result of cash received of £0.5 million under the UK R&D tax credit regime and £0.1 million of non-cash deferred tax on capitalised development costs and acquired intangible assets. Management's best estimate of the effective current tax rate is nil due to the availability of prior years' losses. The Group has substantial tax losses carried forward but does not currently recognise a deferred tax asset in respect of these losses.

## EPS and dividend

Adjusted diluted loss per share was 25.2 pence (2014: 3.5 pence loss). Reported basic and diluted loss per share was 52.3 pence (2014: 16.7 pence). No dividend has been declared.

## Balance sheet, cash and cash flow

The Group has a balance sheet with net assets at 31 December 2015 of £12.0 million (31 December 2014: £18.8 million).

In May 2015, the business completed a share placing raising gross proceeds of £10.0 million with the placement of 11,111,112 new ordinary shares at a price of £0.90 per share from existing and new shareholders. The net proceeds from the placing were used by the Group to repay the £2 million HSBC acquisition loan, support the development of the business and to enable a restructuring to occur.

The Group has a three-year working capital facility of £8.0 million agreed with HSBC in May 2015. £4.5 million of this facility was drawn as at 31 December 2015 (2014: £4.0 million). The Mizuho Bank facility was increased to 200 million Japanese Yen in H2 2014 and JPY 200 million was drawn at 31 December 2015 (2014: JPY 200 million). This facility was fully repaid on 31 March 2016.

In October 2014, the Group agreed an additional £2.0 million four-year-term loan with HSBC to provide funds for future acquisitions. This facility was fully repaid in 2015.

# Financial review continued

Cash and cash equivalents held in the balance sheet at 31 December 2015 was £5.4 million (31 December 2014: £3.7 million). The movement in the cash position during the year is summarised below:

| | 2015 £m |
|---|---|
| Loss before tax | (17.3) |
| Depreciation and amortisation charges | 7.7 |
| Other non-cash expenses | 0.3 |
| Operating cash inflow before working capital movement | (9.3) |
| Working capital inflows | 5.3 |
| Operating cash flows before capital expenditure | (4.0) |
| Capital expenditure on product development and property, plant & equipment | (2.8) |
| Net interest and tax received | 0.3 |
| Cash outflow from trading activities | (6.5) |

With bank loans outstanding of £5.6 million, net debt at 31 December 2015 was £0.2 million (31 December 2014: £3.2 million net debt). The movement in the net debt position is summarised below:

| | 2015 £m |
|---|---|
| Net debt at 1 January 2015 | (3.2) |
| Cash outflow from trading activities | (6.5) |
| Share placing to institutional investors - net | 9.5 |
| Net debt at 31 December 2015 | (0.2) |

Subsequent to the period end the further cash outflow related to restructuring costs together with first quarter losses and working capital movements have led to a net debt position of £2.4million at 31 March 2016.

### Financial instruments

Information on both the Group's financial risk management objectives and the Group's policies on exposure to relevant risks in respect of financial instruments are set out in note 26 of the consolidated financial statements.

### Capital structure

The issued share capital at 31 December 2015 was 36,620,247 (December 2014: 25,062,842) ordinary shares of £0.02 each. The increase of 11,557,405 shares relates to 11,111,112 shares issued in the May 2015 placing and 446,293 share option exercises by employees. The total number of unexercised share options at 31 December 2015 was 1,486,731.

### Review of investment in, and balances with, subsidiaries

An impairment review was undertaken of the standalone Company's balance sheet, and in particular, its investments in, and balances with, subsidiaries, noting the results delivered in 2015 and the outlook to future periods. Following this review, an impairment charge was made in the Company's books.

One consequence of our strategy of focusing on higher margin revenue streams driven from Ubisense-owned IP and exiting from specific lower margin business has been an impairment to goodwill of £4.0million (2014: £1.2million).

**Tim Gingell**
Interim Chief Financial Officer and Company Secretary
6 April 2016

# Key performance indicators

## Financial key performance indicators

The primary financial key performance indicators for the Group, which are reported monthly, are as follows:

- **Adjusted EBITDA**
  Adjusted EBITDA excludes amortisation, depreciation and non-recurring items and is reported as it reflects the performance of the Group. Adjusted EBITDA for the year was £5.2 million loss (2014: £1.8 million profit).

- **Revenue and contribution by Division**
  The revenue and contribution in each Division is different with the stage of completion of individual contracts together with the mix of Geospatial services affecting divisional revenue, gross margin and contribution results. Segmental results are outlined in note 5.1 of the consolidated financial statements.

- **Cash and working capital**
  The Group closely monitors the cash balances and working capital movements. The closing cash balance for the Group was £5.4 million (2014: £3.7 million) and net debt was £0.2 million (2014: £3.2 million net debt). The movement in the cash position is explained in detail in the Financial review starting on page 9.

- **Order backlog**
  Order backlog provides the Group visibility over future revenues. At 31 December 2015, the order backlog was £9.6 million (2014: £12.4 million). This decrease reflects the Group's strategy of focusing on solutions revenues which attract shorter lead times between order and revenue generation than Geospatial services.

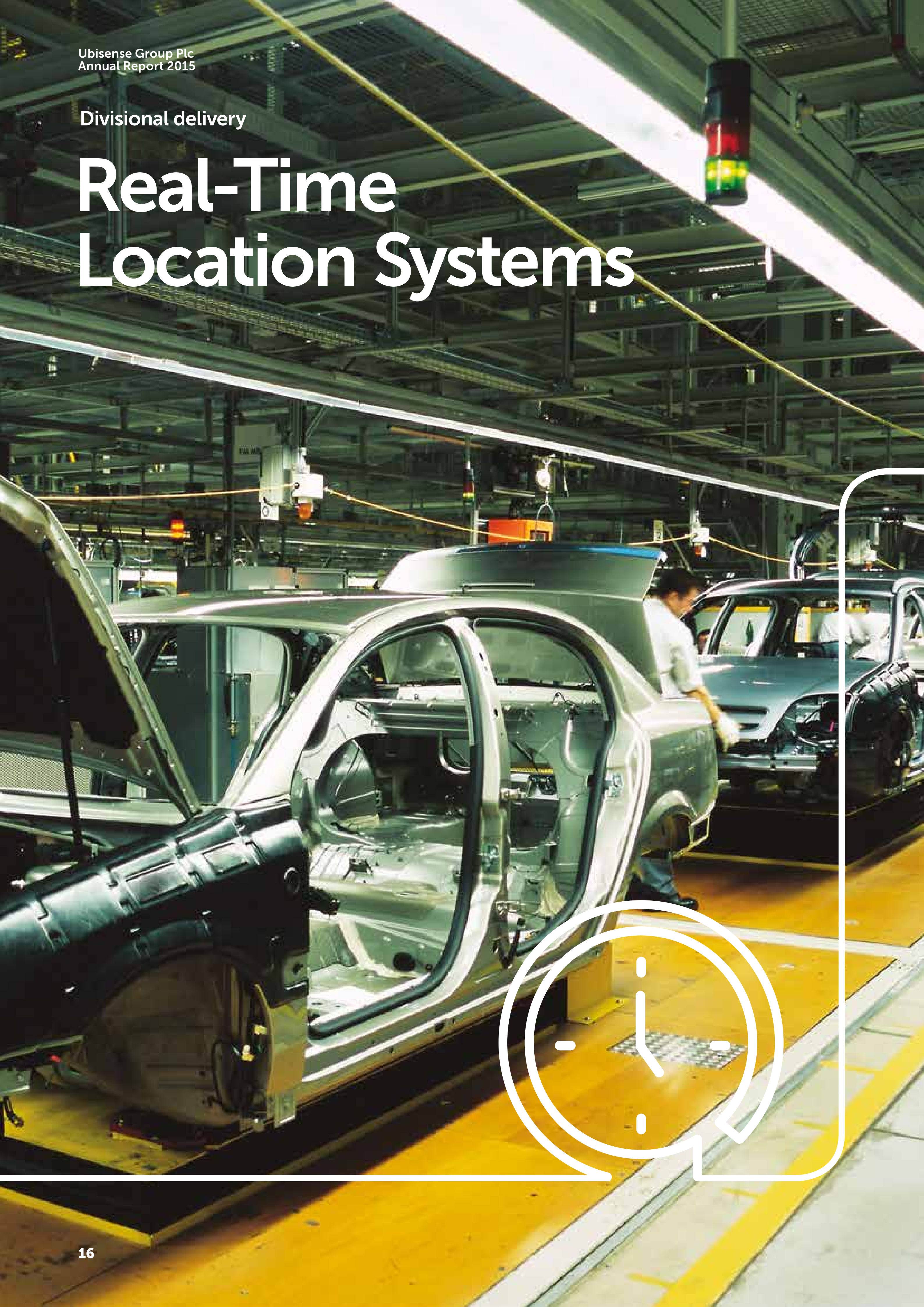
## Non-financial key performance indicators for the Group include:

- Quantity and quality of lead generation, pipeline and conversions to deals in the sales pipeline.
- Project duration including installation service days.
- Our reaction and solution times to customer requests.

Following the reorganisation into two Divisions in the middle of the year, the Board regularly reviews the KPIs in respect of changes within periods and changes between reporting periods. The Board believes that the Group has made steady progress against the KPIs, particularly in terms of driving the business towards positive adjusted EBITDA and improved cash flow.

Divisional delivery

# Real-Time Location Systems



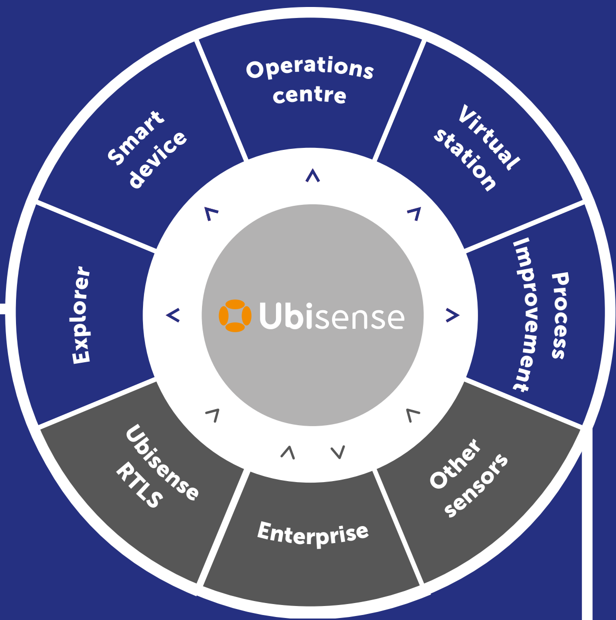
# Smart Factory overcoming manufacturing business challenges

Smart Factory is a system that is proven to help manufacturers sustain continuous flow, optimize efficiency and reduce errors in manual assembly processes. The system enables users to instantly recognise opportunities for improvement, to quickly and easily move ID points without reconfiguring hardware infrastructure, and to instantly identify critical issues and the real-time status of operations.

Smart Factory also enables automatic, product sensitive device control and poke-yoke, anywhere in the plant, reducing manual errors, cycle time and line stoppages.
By accurately identifying and locating process critical assets, Smart Factory provides real-time operational awareness, adaptive control and data-driven insights.

**How it works**
Smart Factory gathers location data, and data from existing plant systems and devices.

The system combines this information, correlating the real-time process interactions with operational details, to deliver a virtual interpretation of exactly what's going on in the factory. By leveraging this knowledge, Smart Factory empowers automation and drives widespread improvements to users'. manufacturing processes.




**The Smart Factory model**

## 10 out of 12

Of the world's leading automotive manufacturers use Smart Factory

Divisional delivery

# Real-Time Location Systems case study

# CLAAS TRACTOR

With advanced searching and real-time spatial monitoring capabilities, Smart Factory enabled Claas, a leading European tractor maker, to drive widespread efficiencies at its facility in Le Mans.

## Challenge

To reduce tractor inventory and improve production flow in a busy offline department with multiple work areas.

Every day, Claas Le Mans produces around 50 tractors in 12 different models, and has up to 600 tractors in its extensive offline department at any given time. With so many different tractors in its parking areas, it was extremely difficult and time consuming for Claas workers to identify and locate the correct ones when needed – finding the right tractor commonly involved a physical search of multiple yards.

Claas had realized that it could make considerable cost savings if it could prevent this wasted search time, and could improve its cash flow by reducing its inventory of un-shipped tractors. However, it lacked the real-time asset visibility required to make this happen.

## Solution

Smart Factory enabled complete, always-on visibility of operations in the Le Mans factory Offline area, helping Claas to greatly reduce both search times and delivery times.

The Smart Factory system delivered powerful real-time location and GPS-enabled searching capabilities, eliminating wasted search time in the tractor holding area. With Smart Factory, Claas' workers can instantly identify and find the exact vehicle required (using tailored criteria such as production number, model or age for example) in an easy to interpret map view. They no longer have to perform laborious manual searches, or try to maintain paper-based records.

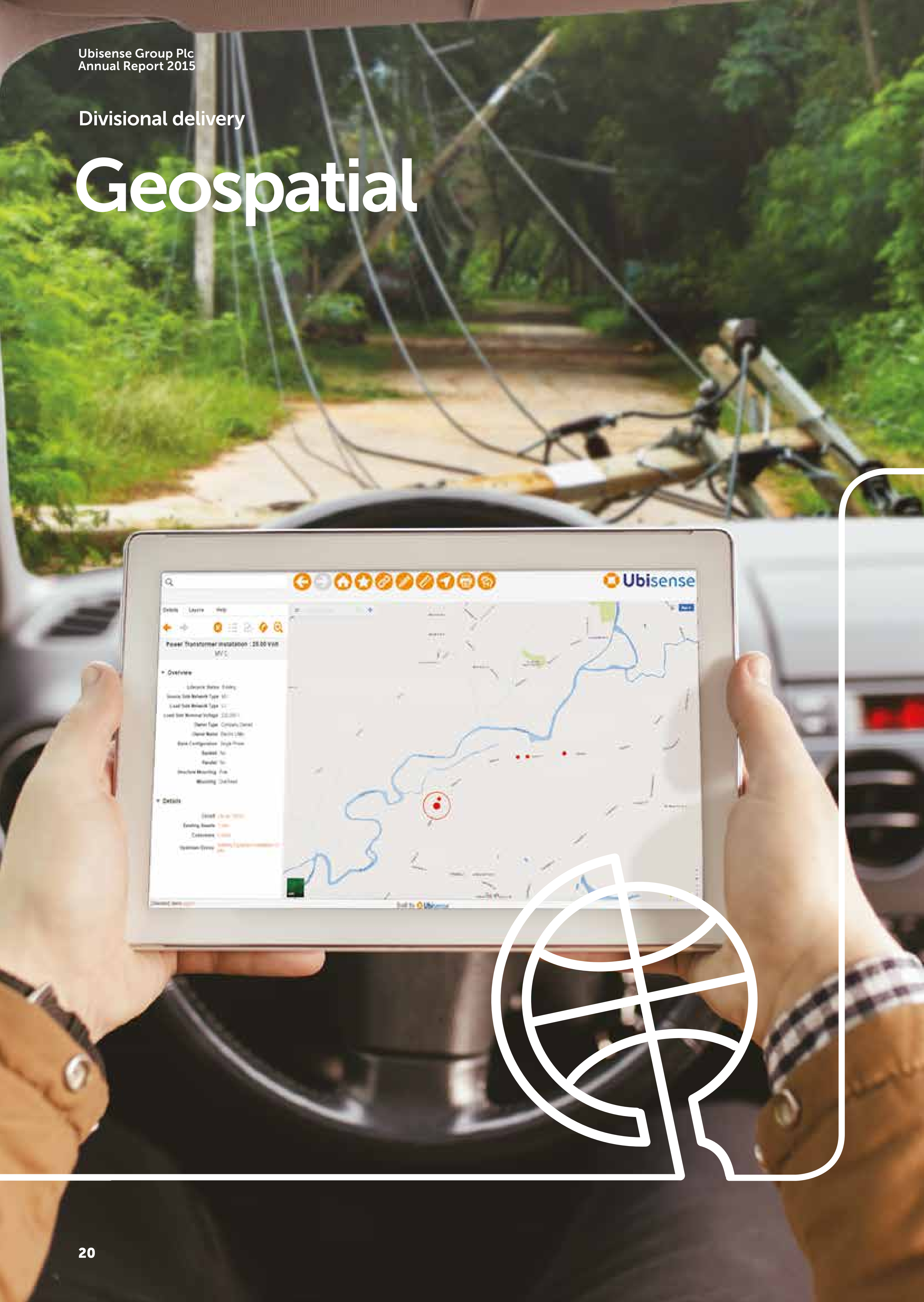
In addition to this significant waste reduction, Smart Factory provides Claas with new insights, and real-time alerts on dwell times in spaces such as repair bays, enabling the manufacturer to drive further process improvements in the Offline area.

## Results

- With Smart Factory, Claas' workers know the location and status of every tractor and critical production asset in the offline area, at all times. Wasted time spent searching for tractors in re-work has been eliminated, freeing personnel to focus on higher value-adding tasks.
- The manufacturer has been able to reduce the volume of on-wheels vehicles in the parking areas, and release vital revenue.
- Claas Offline Managers have new insights with which to improve production flow.

Divisional delivery

# Geospatial



# Organisations that excel in operations and maintenance empower their people with the knowledge resources they need to do their jobs.

They strive to make data interpretation simple and sharing fast – from the field, to the office, and back again. When that happens, the right decisions are made faster, costs reduce and customer experience improves.

Ubisense myWorld is a means to achieve exactly that. It uses a Google Maps style interface and real-time connectivity to deliver actionable information to field and office users. myWorld enables an organisation to meet the demands of internal and external stakeholders without burdening the IT infrastructure.

**How it works**

Ubisense myWorld is a web and mobile platform that integrates data from multiple sources – existing GIS products, other enterprise systems and external information – into one, single view. It supports anyone in an organisation with access to a map-based overview of detailed network data, on any device whether they're online or offline. myWorld is designed for electric, gas, water and telecom companies. It provides simple, smart and fast location intelligence to 95% of an organisations' workforce who are not trained GIS users. With a familiar Google Maps style interface that works across all devices from PCs to smartphones, it's straightforward and intuitive to use.

Divisional review

# Geospatial case study

NiSource: Northern Indiana Public Service Company (NIPSCO) a subsidiary of NiSource Inc. (NYSE: NI) – a Fortune 500 company that provides energy to nearly four million customers in the United States – purchased Ubisense myWorld Damage Assessment in 2015.

Ubisense myWorld Damage Assessment enabled NiSource to streamline its field data collection process during storm restoration enabling the company to allocate field teams and receive their assessments in real time, delivering instant visibility of the level of damage and completeness of their assessment.

## Challenge

To streamline the company's field data collection process during storm restoration to enable NiSource to help restore power to customers faster and more predictably.

Customers depend on a reliable source of electricity and therefore the company have to be prepared for outages caused by storms or other emergencies. When a storm hits, NiSource needs to mobilise its teams in a fast and effective manner to get them to the affected areas and assess the damage as early as possible. These teams would historically be working with paper maps and radio-based manual reporting. The time taken to assess any damage, identify the assets involved and get this information back to the operational teams could be very lengthy.

Delays in providing accurate information from the field caused many issues. NiSource wants to provide the best possible restoration time estimates to its customers and delays in information impact estimation quality which has a direct influence on customer service levels. Delays also have a direct impact on storm restoration costs. Improved information has been proven to reduce overall restoration time, improves resource allocation and makes requests for mutual aid from other utilities more accurate.

## Solution

The myWorld Damage Assessment solution, rapidly deployed in approximately seven months, enabled NiSource to better communicate and share information in near real time, increasing visibility about damaged areas and infrastructure to make swift, informed decisions that streamline the restoration process.

By leveraging and integrating existing systems and enterprise data sources and adding new, cloud-based data such as Google Maps, weather and traffic feeds, myWorld Damage Assessment automated the existing paper-based system to enable the aggregation of critical assessment information as it was collected in the field. In this way, myWorld Damage Assessment provides a live view of the assessment efforts for Storm Supervisors and Emergency Managers, and enables field workers to collect damage data more effectively, using any mobile device with or without a permanent network connection.

## Result

NiSource can now, with its electronic tablet-based integrated damage assessment system, aggregate critical assessment information as it is collected in the field, using this to improve the accuracy of its estimated restoration time predictions, help reduce repair times, improve System Average Interruption Duration Index (SAIDI) scores and make quicker decisions about mutual aid requests – all adding to greatly improve a customer's experience and satisfaction during outages.

The system has already been used effectively during two major storm events that have hit the mid-west since December. With the success of this first implementation, NIPSCO are now planning further integration into their Outage Management System (OMS) and Materials Management system to provide a closed-loop system for their operations teams in the field.

Corporate social responsibility

# Values and standards

### Employee involvement

The Group aims to attract, retain and motivate the best staff regardless of gender, race, religion, sexual orientation, age or disability. To that end it is committed to offering equal employment opportunities.

The Group provides its employees systematically with information on matters of concern to them and regularly consults its staff, or their representatives, for views on matters affecting them.

The Group encourages employee involvement in the Group's performance by periodically granting share options and Group performance-related variable compensation, and ensures that employees are fully aware of financial and economic factors affecting the performance of the Group.

### Employee policies

The Group is committed to following the applicable employment laws in each territory in which it operates. The Group is committed to ensuring that disabled persons, whether registered or not, have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. In addition to complying with legislative requirements, procedures ensure that disabled employees are fairly treated and that their training and career development needs are carefully managed. For those employees becoming disabled during the course of their employment, every effort is made, whether through retraining or redeployment, to provide an opportunity for them to remain with the Group.

### Health and safety environment

The Group is committed to maintaining a safe and healthy working environment for all staff. To that end it provides appropriate training and supervision and complies with all applicable regulatory requirements.

The Group seeks wherever possible to minimise its impact on the environment for the benefit of its staff and the public at large. The Group is committed to complying with environmental regulations in particular Waste Electrical and Electronic Equipment recycling (WEEE) and encourages and supports staff in waste recycling within its offices.

### Community activity

At Ubisense we are committed to being a responsible business, both in how we work with our customers but also in terms of how we contribute to the wider community and the world around us. It is important to our employees to work for a socially responsible organisation and our approach therefore reflects our people.

We are actively involved in supporting and developing the local community to make a lasting positive impact, and with our employees we are involved in a wide variety of community projects. These have included in the UK: charity and payroll giving; support for local universities with summer internships and work placements; and management time to help promote entrepreneurship and mentoring to students.

We also regularly offer our office and business facilities to support local organisations such as the Cambridge Network and the Cambridge Enterprise & Technology Club, where for example we recently hosted a very successful event with over 35 representatives from local business.

Principal risks and uncertainties

# How we manage risk

The Group faces competitive and strategic risks that are inherent in a rapidly growing emerging market. The Board and the Executive management team review strategy and risks to the business regularly. Where possible, processes are in place to monitor and mitigate the identified risks.

The key business risks affecting the Group are set out opposite:

## Technological risks

The Group operates in an industry where competitive advantage is heavily dependent on technology. It is possible that technological development may reduce the importance of the Group's function in the market or render the patents on which it relies redundant. For instance, the Group's Enterprise location systems rely on ultra-wideband radio signals to operate. There is no guarantee that technological advances will not render systems based on ultra-wideband radio obsolete.

In order to mitigate this risk, Ubisense invests in a range of research and development activities to maintain its competitive advantage and participates in industry and research forums in order to keep abreast of technological advances. The Group spent £3.1 million in its R&D programmes in the year (2014: £3.9 million) of which £2.5 million (2014: £3.0 million) was capitalised.

## Financial instruments

Information on both the Group's financial risk management objectives and the Group's policies on exposure to relevant risks in respect of financial instruments are set out in note 26 of the consolidated financial statements.

## Growth management

The Directors believe that further expansion, either organic or via acquisition, will be required in the future to capitalise on the anticipated increase in demand for the Group's solutions. The Group's future success will depend, in part, on its ability to manage this anticipated expansion across the business and if the Group is unable to manage its expansion effectively, its business and financial results could suffer. In order to mitigate this risk, the Group continues to develop its systems and processes that can scale with the business whilst maintaining good financial management.

## Staff recruitment and retention

The contribution made by Ubisense's highly skilled and experienced staff is vital to the Group's success. As the Group grows, it is important to recruit and retain staff.

The Group has in place appropriate incentive structures to attract and retain the calibre of employees necessary to ensure the efficient development and management of the Group.

### Reliance on third parties, including manufacturers

The Group relies on certain key third-party equipment manufacturers in the completion of its products, and therefore does not always have complete control over the supply of the equipment and materials it requires to comply with its obligations under customer contracts. To the extent that the Group cannot acquire equipment or materials according to its plans and budgets, its ability to complete its work for its customers within the timetable laid down by the contract or at a profit may be impaired. If a manufacturer is unable to deliver the products for any reason, the Group may be required to purchase such equipment or materials from another source at a higher price. The resulting additional costs may be substantial and the Group may be in breach of its contracts with customers, which may result in a financial loss on a particular contract or a loss of business. In addition, any resulting failure to fulfil contracts with customers and other business partners may have an adverse effect on the Group's future profitability and reputation.

In order to mitigate this risk, the Group closely manages and reviews its relationship with key suppliers on a regular basis.

### Dependence on key customers

The Group has a concentrated customer base, many of which are substantially larger enterprises than the Group. As such, the purchasing power of the Group's customers is often significant, which may impact the ability of the Group to negotiate terms which are favourable to it in contracts. The Group is reliant on significant projects with its key customers to deliver its projected financial results. Changes to the timing and/or terms of significant projects, to the investment decisions of key customers or failure by the Group to retain key customers may have a significant adverse effect on the Group's business and financial results. In the financial year to 31 December 2015 the Group's 10 largest customers accounted for 41% of the Group's revenue (2014: 47%), of which one customer accounted for just under 6% (2014: 13%). The loss of a major customer could result in a decrease in Group revenues, margins and profitability.

In order to mitigate this risk, the Group continues to invest in the key customer relationships that it has successfully retained over many years, whilst also maintaining a strategy to extend and diversify its customer base.

### Contracts

Some of the Group's commercial contracts include terms where revenues and/or invoicing are related to customer acceptance. Other contracts contain terms whereby the timing of cash collections is contingent on the customer re-selling our products to end users.

The Group's exposure under such contracts is limited and reviewed regularly by the Board.

A significant proportion of the Group's revenue is derived from a small number of large deals, the timing of which is not within the control of the Group. Such a profile makes forecasting difficult and changes against expectations have had, and may continue to have, a significant impact on the Group's results, particularly given the Group's significant level of operational gearing. To mitigate this risk, the Group's management maintains regular detailed reviews of the opportunity pipeline including critical stages to complete the larger deals taking judgement on the risks involved. The status of key deals in the current period is reported on at Board meetings.

### Credit

The main credit risk is attributable to trade receivables owed by customers. As the majority of the Group's customers are very large, blue-chip utilities, telecoms and manufacturing companies, the risk of non-payment tends to be less of a traditional credit nature and more related to customer satisfaction.

Credit exposure by customer is reviewed regularly by the Executive management team and the main Board with provision made for doubtful receivables when there are circumstances which, based on experience, are evidence of a likely reduction in the recoverability of the receivable.

### Bank covenants

In May 2015 the Group extended the three year working capital bank loan facility to £8.0 million (2014: £5.0 million) with HSBC Bank plc repayable in 2018, and as at 31 December 2015 the outstanding balance was £4.5 million (2014: £4.0 million).

Following the fund raise in May 2015, the £2.0 million acquisition loan with HSBC Bank plc that existed as at 31 December 2014 was repaid.

The Group is required to meet certain financial criteria agreed as covenants for the bank loan as laid out in note 18 to the financial statements. The financial measures are regularly reviewed against covenant requirements to ensure the Group's obligations can be met.

The Group notified HSBC of a breach of the covenants relating to adjusted EBITDA as at 31 December 2015 and as at 31 March 2016, against which HSBC provided Reservation of Rights letters indicating that they do not intend to take further action.

With a covenant test based on a rolling 12-month adjusted EBITDA calculation, the Group anticipates further covenant breaches in the next 12 months until the full effect of the restructuring actions taken in 2015 are delivered, and the disappointing results of 2015 no longer have an impact on the calculation. The Group is engaged in constructive discussions with HSBC on a multi-year repayment loan with business appropriate covenants as a replacement of this facility.

### Intellectual property

The Group has a number of trademarks registered, and is pursuing registration of a number of trademarks in the major territories in which it operates. The Group also has a patent portfolio comprising of a number of patents filed in territories worldwide. Should a third party successfully demonstrate priority over any of these rights, it could inhibit the Group, or the Group's customers, from selling products in certain territories.

Any failure to protect the Group's intellectual property may result in another party copying or otherwise obtaining and using its proprietary technology without authorisation. There may not be adequate protection for the intellectual property in every country in which the Group's products are made available and policing unauthorised use of proprietary information is difficult and expensive. Due to the Group's size and limited cash resources, it may not be able to detect and prevent infringement of its intellectual property.

In addition, some of the Group's patents are licensed from a third party. The terms of that licence are on relatively standard commercial terms. However, there can be no guarantee that such third party will adequately maintain such patents and therefore the protection and benefit afforded to the Company by such patents cannot be guaranteed.

The steps which the Group has taken to protect its intellectual property may be inadequate to prevent the misappropriation of its proprietary technology. Any misappropriation of the Group's intellectual property could have an adverse impact on the Group's business and its operating results. Furthermore, the Group may need to take legal action to enforce its intellectual property, to protect trade secrets or to determine the validity or scope of the proprietary rights of others. Litigation relating to the Group's intellectual property, whether instigated by the Group to protect its rights or arising out of alleged infringement of third-party rights, may result in substantial costs and the diversion of resources and management attention, and there can be no guarantees as to the outcome of any such litigation.

### Digital infrastructure and cybersecurity

Breaches of the Group's digital security through cyber attacks or otherwise, or failure of the Group's digital infrastructure could seriously disrupt operations and result in the loss or misuse of data or sensitive information, legal or regulatory breaches and potentially legal liability. These could result in significant costs or have reputational consequences.

Following a review of the resilience and disaster recovery capability of the Group's critical systems and exchanges in 2015, we have invested resources in enhancing site resilience and defences, improving network monitoring and reviewing the incident response processes to mitigate the impact of a security breach.

Approved by the Board of Directors and signed on behalf of the Board

**Tim Gingell**
Interim Chief Financial Officer and Company Secretary
6 April 2016

Ubisense Group Plc
Registered number: 05589712

# Board of Directors

**Peter Harverson,**
**Chairman**

Peter has held a number of senior international sales and marketing roles in the IT industry. These included Regional Director, Intel Corporation and Vice President Europe, Cadence Design Systems.

In 1995 he joined Sun Microsystems where he was responsible for the development of the company's European Corporate Accounts programme. Subsequently he became Director of Services Sales – EMEA with a charter to develop new areas of business, including professional services. Peter retired from Sun Microsystems in December 2005. Most recently he was Non-Executive Chairman of Aspex Semiconductors Limited, sold to Ericsson AB in July 2012.

Currently, Peter is a Non-Executive Director of Brady plc, CRFS Limited, and Chairman of eoSemi Limited. Peter is also an adviser to Cambridge IP Limited.

**Richard Green,**
**Chief Executive Officer**

Richard initially trained as a mechanical engineer and has over 25 years' experience in the software industry.

Having established Smallworld as one of the leading geographic information system companies serving utility and telecoms companies in Europe and the US, the company subsequently listed on NASDAQ in 1996 and was acquired by GE in 2000 for $214 million. Richard was Ernst & Young UK's Science and Technology Entrepreneur of the Year in 2010.

Richard is a Fellow of the Institute of Mechanical Engineers. He is also Entrepreneur in Residence at the Cambridge Judge Business School.

**Dr. Robert Sansom,**
**Non-Executive Director**

An active angel investor and mentor to start-ups, Robert is founder of the Cambridge Angels, a group of seasoned technology and bio-technology entrepreneurs who invest in and mentor technology start-ups in the Cambridge area.

Previously, Robert was co-founder, CTO and Director of FORE Systems, Inc., a leading provider of networking equipment. FORE was listed on NASDAQ in 1994 and subsequently acquired by Marconi for $4.5 billion in 1999. Additionally, Robert served as the Chief Technology Officer at Marconi until 2000.

Robert is a member of the board of directors of Cambridge Communications Systems Limited, CRFS Limited, Featurespace Ltd and Netronome Systems, Inc. He was elected as a Fellow of the Royal Academy of Engineering in 2010, and is a trustee of Camfed.

**Paul Taylor,**
**Non-Executive Director**

Paul is a Fellow of the Association of Chartered Certified Accountants. Paul joined AVEVA Group Plc in 1989 and was heavily involved in the flotation process and was responsible for UK accounting and for the development of AVEVA's overseas subsidiaries including adherence to group standards.

Between 1998 and 2001, Paul was also UK Director of Human Resources and was appointed to the position of Finance Director and Company Secretary of AVEVA Group plc on 1 March 2001. Before joining AVEVA, Paul trained within the accountancy profession before moving to Philips Telecommunications (UK) where he was responsible for the management accounts of its Public Sector division.

Paul was a recipient of the FTSE250 Finance Director of the Year award and is also a Non-Executive Director of Escher Group Holdings plc, Digital Barriers plc and KBC Advanced Technologies plc.

**Ian Kershaw,**
**Non-Executive Director**

Ian has over 30 years' experience in the automotive, manufacturing and power industries. He has global responsibility for both transaction support and operational performance improvement within Ricardo's strategic consulting division.

Ian has held management positions with Caterpillar, Rolls-Royce and Bentley Motor Cars and Arthur D. Little.

**Tim Gingell,**
**Interim Chief Financial Officer / Company Secretary**

Tim has over 25 years commercial and financial experience across software, wireless and telecoms industries.

Tim qualified as a Chartered Accountant with Deloitte in London and most recently was CFO or Director for a number of IBM's acquired companies having joined IBM when they acquired i2 from Silver Lake Sumeru.

Prior to that Tim led the finance team at the venture-capital-backed company The Cloud Networks, and previously had spent 10 years at MFS/Worldcom in commercial roles.

# Corporate governance report

Although not required to do so by the AIM Listing Rules, the Directors have chosen to provide selected corporate governance disclosures with this report, which they consider to be valuable to the reader.

The Directors believe that effective corporate governance, appropriate to the Group considering its size and stage of development, will assist in the delivery of corporate strategy, the generation of shareholder value and the safeguarding of shareholders' long-term interests. We do not comply with the UK Corporate Governance Code September 2014 (the Code). However, the Directors are committed, wherever it is reasonably practicable, to ensure that the Group is managed in accordance with the principles set out in the Code.

## Composition of the Board

The Board comprises the Non-Executive Chairman, three Non-Executive Directors and one Executive Director. Biographical details of all members of the Board are set out on pages 28 and 29.

Since the flotation of the Company in 2011, no equity-based incentives have been granted to Non-Executive Directors and there are no such plans for any such grants in the future. At the end of the year, the Chairman and all Non-Executive Directors had shares and share options in Ubisense Group Plc.

The holding of shares and share options by Non-Executive Directors could, amongst other things, be relevant in determining whether a Non-Executive Director is independent. Therefore, after detailed consideration, the Board has determined that Paul Taylor and Ian Kershaw are the only independent Non-Executive Directors within the meaning of the Code, noting that their shareholdings in the Group are small.

The roles of Chairman and Chief Executive Officer are vested in separate individuals, each with clear allocation of accountability and responsibility. The Chairman has prime responsibility for running the Board and the Chief Executive Officer has executive responsibilities for the Group's strategic development, operations and results. The structure of the Board and the integrity of each Director ensures that there is no one individual or group dominating the decision making process.

## The role of the Board

The Board holds full meetings at least 10 times per year, with attendance required in person whenever possible. The principal matters that it considers are as follows:
- reviewing operating and financial performance;
- ensuring that appropriate management development and succession plans are in place;
- determining corporate strategy, including consideration and approval of the Company's annual strategy review;
- establishing dividend policy;
- approving and accepting all new committed funding facilities;
- approving and accepting major changes in the capital structure of the Company;
- reviewing and approving formal treasury policies relating to funding, liquidity, transactional foreign exchange and interest rate risk management;
- reviewing the health and safety and environmental performance of the Company;
- approving corporate acquisitions, mergers, divestments, joint ventures and major capital expenditure; and
- receiving, reviewing and approving recommendations by the designated Committee on matters related to audit, nominations and remuneration.

The Board is supplied with information in a timely manner and in a form and of a quality appropriate to enable it to discharge its duties. The Board has a policy to set out which matters are reserved for the decision of the Board and those to which the Executive Directors need not refer for approval. This policy also requires that all recommendations and decisions by a Board Committee are approved or ratified by the Board.

### Summary of Board meeting attendance in 2015

The Board is expected to meet regularly on a formal basis at least 10 times a year. 20 Board meetings were held in 2015. Attendance at the meetings was as follows:

| | Total meetings attended |
|---|---|
| Tim Gingell | 9 (9) |
| Richard Green | 20 (20) |
| Peter Harverson | 19 (20) |
| Andrew Hopper | 20 (20) |
| Ian Kershaw | 17 (20) |
| Robert Parker | 10 (11) |
| Robert Sansom | 17 (20) |
| Paul Taylor | 20 (20) |

Figures in brackets denote the maximum number of meetings that could have been attended.

### Board Committees

The Board has established three Committees: the Audit Committee, the Nomination Committee and the Remuneration Committee.

### Summary of Committee membership

The Committee membership as at 31 December 2015, was as follows:

| | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|
| Tim Gingell | Yes | – | – |
| Peter Harverson | – | Yes | Chair |
| Ian Kershaw | Yes | – | Yes |
| Robert Sansom | – | Chair | – |
| Paul Taylor | Chair | Yes | Yes |

On 1 January 2016, Ian Kershaw became Chair of the Remuneration Committee whilst Peter Harverson remains on that Committee.

### Summary of Committee meeting attendance

| | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|
| Tim Gingell | 4 (4) | – | 1 (1) |
| Richard Green | – | – | 1 (1) |
| Peter Harverson | – | 4 (4) | 4 (4) |
| Ian Kershaw | 4 (4) | – | 4 (4) |
| Robert Parker | 2 (2) | – | – |
| Robert Sansom | – | 4 (4) | – |
| Paul Taylor | 4 (4) | 4 (4) | 4 (4) |

Figures in brackets denote the maximum number of meetings that could have been attended.

# Corporate governance report continued

The role of each Committee is described in more detail below:

## Audit Committee

The Audit Committee has responsibility for the following matters:

- Financial reporting:
  - Review of all financial reports released to the market and shareholders.
  - Review of significant reporting issues and key judgements.
  - Review of accounting policies selected and their application.

- External audit:
  - Recommending appointment, re-appointment or removal of the external auditors.
  - Overseeing the Group's relationship with the external auditors, including assessing their independence.
  - Agreeing the annual audit plan and reviewing the finding and effectiveness of the audit.

- Whistleblowing:
  - Review of the Group's whistleblowing policies and procedures.

As part of its procedures, the Committee discusses the interim and annual financial statements with the external auditors. When appropriate, non-Committee members are invited to attend. During the period under review, the Committee has met four times on a formal basis excluding meetings of the Chairman with external advisers. The Committee is expected to meet formally four times a year.

## Nomination Committee

The Nomination Committee has responsibility for the following matters:

- Reviewing the size and composition of the Board to ensure that an appropriate mix of skills, knowledge and experience is achieved.
- Succession planning for the Board and other key management roles.
- Identifying and recommending to the Board candidates to fill Board vacancies.
- Ensuring Non-Executive Directors are able to make the necessary time commitments to fulfil their role.
- Ensuring Non-Executive Directors receive letters of appointment, detailing their responsibilities.
- Making recommendations to the Board about the appointment, removal or continuation in office of any Director.

During the period under review, the Committee has met four times on a formal basis. The Committee is expected to meet formally twice a year.

## Remuneration Committee

The Remuneration Committee has responsibility for the following matters:

- Agreeing the framework for the Group's remuneration policy for Directors and key management personnel, including determining individual remuneration policies for Executive Directors.
- Approving the design and targets for short- and long-term incentive plans.
- Determining the policy and scope of pension arrangements.
- Ensuring contractual terms and payments made on termination are fair to both the individual and the Group.
- Agreeing the policy for authorising expense claims by the Chair and Chief Executive.

The Group has a formal and transparent procedure for developing policy on Directors' remuneration. No Director is involved in deciding his own remuneration.

The Committee aims to set levels of remuneration for Executive Directors that are sufficient to attract, retain and motivate Directors of the quality required, without paying more than necessary, and that are appropriate for the size and complexity of the Group. It aims to see that a significant proportion of each Executive Director's remuneration package is performance-related.

During the period under review, the Committee has met four times on a formal basis. The Committee is expected to meet formally twice a year.

## Internal control

The Board of Directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The risk managing process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. It should be recognised that such systems can only provide reasonable but not absolute assurance against material misstatement or loss. The Directors acknowledge their responsibilities for the Group's system of internal control and for reviewing its effectiveness. The principal features of the system of internal financial controls are:

- Budgetary control over all operations, and measuring performance against pre-determined targets on at least a monthly basis.
- Regular forecasting and reviews covering trading performance, assets, liabilities, cash flows and bank covenants.
- Delegated limits of authority covering key financial commitments including capital expenditure and recruitment.
- Identification and management of key business risks.

The Board continually reviews the effectiveness of other internal controls, including financial, operational, compliance controls and risk management.

# Directors' report

The Directors present their annual report on the affairs of the Group together with the audited financial statements for the year to 31 December 2015.

### Incorporation and constitution

Ubisense Group Plc is domiciled in England and incorporated in England and Wales under Company Number 05589712. Ubisense Group Plc's Articles of Association are available on the Group's website at www.ubisense.net.

### Capital structure

The Company has one class of ordinary share of two pence each which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

Details of the share capital of the Company, including shares issued during the year, can be found in note 20 of the consolidated financial statements.

### Substantial shareholdings

On 6 April 2016, the Company had been notified of the following significant interests in its ordinary share capital:

| | **Total holding number** | % of issued share capital |
|---|---|---|
| Kestrel Partners | **8,427,393** | 23.01% |
| Threadneedle Investments | **4,227,636** | 11.54% |
| Robert Sansom | **2,985,899** | 8.15% |
| NFU Mutual Insurance Society Ltd | **2,336,490** | 6.38% |
| Ruffer LLP | **1,935,671** | 5.28% |
| Richard Green* | **1,844,462** | 5.04% |
| Living Bridge | **1,432,049** | 3.91% |
| Charles Stanley | **1,331,444** | 3.64% |
| Unicorn Asset Management | **1,205,978** | 3.29% |

* Includes 115,617 (2014: 115,617) shares held by the RT Green Children's Trust of which Richard Green is a trustee.

### Directors

The Directors serving at 31 December 2015 were as follows:

Richard Green
Peter Harverson
Ian Kershaw
Robert Sansom
Paul Taylor

### Board changes

On 29 June 2015, Robert Parker resigned his position as Chief Financial Officer and left the Company.

On 21 July 2015 Tim Gingell, having joined the Group in February 2015, was appointed as Company Secretary and is Interim Chief Financial Officer whilst the Group reviews its options for a permanent replacement.

On 9 October 2015, Andrew Hopper notified the Board of his intention to resign both as Chairman and Non-Executive Director after almost 10 years of service with Ubisense effective from 31 December 2015.

### Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group Plc at 31 December 2015 were as follows:

| | **2015 number** | 2014 number |
|---|---|---|
| Richard Green* | **1,844,462** | 1,734,906 |
| Peter Harverson | **65,161** | 65,161 |
| Andrew Hopper | **277,401** | 225,000 |
| Ian Kershaw | **2,000** | – |
| Robert Sansom | **2,985,899** | 2,493,676 |
| Paul Taylor | **33,334** | – |
| Total | **5,208,257** | 4,518,743 |

* Includes 115,617 (2014: 115,617) shares held by the RT Green Children's Trust of which Richard Green is a trustee.

There has been no change in the interests set out above between 31 December 2015 and 6 April 2016.

### Directors' remuneration, share options and loans
Details of Directors' remuneration and share options are provided in note 7 of the financial statements. There are no loans to or from the Directors.

### Directors' indemnity arrangements
The Group has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

The Group has purchased and maintained throughout the year Directors' & Officers' liability insurance in respect of itself and its Directors.

### Corporate governance
The Company's statement on corporate governance can be found in the Corporate Governance report on page's 30 to 33 of these financial statements. The Corporate Governance report forms part of the Directors' report and is incorporated into it by cross reference.

### Business review
The information that fulfils the requirements of the business review, including details of financial performance for the year ending 31 December 2015, key performance indicators, principle risks and uncertainties and the future outlook are set out in the Chairman's statement, Chief Executive's statement and Financial review.

### Post-balance sheet events
In the Financial review, the Group outlined the fact that the Mizuho loan was repaid on 31 March 2016, and that the Group had notified the bank of the breach of covenants on the HSBC bank plc loan.

### Dividends
The Directors do not recommend payment of a dividend for the year (2014: £nil).

### Auditor
A resolution to re-appoint Grant Thornton UK LLP as the Group's auditor will be proposed at the forthcoming Annual General Meeting. In accordance with normal practice, the Directors will be authorised to determine the Auditor's remuneration.

Approved by the Board of Directors and signed on behalf of the Board

**Tim Gingell**
Interim Chief Financial Officer and Company Secretary
6 April 2016

Ubisense Group Plc
Registered number: 05589712

# Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the Directors must not approve the financial statements unless they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

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

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

## Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditor are unaware; and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent auditor's report

to the members of Ubisense Group Plc

We have audited the Group financial statements of Ubisense Group Plc for the year ended 31 December 2015 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

## Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 36, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website: www.frc.org.uk/auditscopeukprivate.

## Opinion on financial statements

In our opinion, the Group's financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

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

We have nothing to report in respect of the following matters where under the Companies Act 2006 it requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Other matter

We have reported separately on the Parent Company financial statements of Ubisense Group Plc for the year ended 31 December 2015.

**Paul Naylor**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge

6 April 2016

# Consolidated income statement

For the year ended 31 December 2015

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Revenue** | 5 | **21,982** | 35,051 |
| Cost of revenues | | **(14,290)** | (21,053) |
| **Gross profit** | | **7,692** | 13,998 |
| Operating expenses | | **(24,671)** | (18,579) |
| **Operating loss** | | **(16,979)** | (4,581) |
| **Analysed as:** | | | |
| Gross profit | | **7,692** | 13,998 |
| Other operating expenses | | **(12,914)** | (12,169) |
| **Adjusted EBITDA** | | **(5,222)** | 1,829 |
| Depreciation | 13 | **(388)** | (359) |
| Amortisation and impairment of acquired intangible assets | 12 | **(309)** | (2,019) |
| Amortisation and impairment of other intangible assets | 12 | **(6,985)** | (2,937) |
| Non-recurring items | 9.2 | **(4,075)** | (1,095) |
| **Operating loss** | | **(16,979)** | (4,581) |
| Finance income | 8 | **12** | 14 |
| Finance costs | 8 | **(301)** | (211) |
| **Loss before tax** | 9 | **(17,268)** | (4,778) |
| Income tax | 10.1 | **632** | 736 |
| **Loss for the year** | | **(16,636)** | (4,042) |
| **Loss attributable to:** | | | |
| Equity shareholders of the Company | | **(16,569)** | (4,085) |
| Non-controlling interest | | **(67)** | 43 |
| | | **(16,636)** | (4,042) |
| **Loss per share attributable to the equity shareholders of the Parent (pence)** | | | |
| Basic | 11 | **(52.3p)** | (16.7p) |
| Diluted | 11 | **(52.3p)** | (16.7p) |

The notes on pages 44 to 73 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

For the year ended 31 December 2015

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Loss for the year** | **(16,636)** | (4,042) |
| **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 | **139** | (531) |
| **Total comprehensive loss for the year** | **(16,497)** | (4,573) |
| **Attributable to:** | | |
| – Equity shareholders of the Company | **(16,423)** | (4,549) |
| – Non-controlling interest | **(74)** | (24) |
| **Total comprehensive loss for the year** | **(16,497)** | (4,573) |

The notes on pages 44 to 73 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

For the year ended 31 December 2015

| | Attributable to equity shareholders of the Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital £'000 | Share premium £'000 | Share-based payment reserve £'000 | Translation reserve £'000 | Retained earnings £'000 | **Sub-total £'000** | Non-controlling interest £'000 | **Total £'000** |
| **Balance at 1 January 2014** | 461 | 24,050 | 746 | (221) | (6,342) | **18,694** | 554 | **19,248** |
| Loss for the year | – | – | – | – | (4,085) | **(4,085)** | 43 | **(4,042)** |
| Exchange difference on retranslation of net assets and results of overseas subsidiaries | – | – | – | (464) | – | **(464)** | (67) | **(531)** |
| **Total comprehensive loss for the year** | – | – | – | (464) | (4,085) | **(4,549)** | (24) | **(4,573)** |
| Reserve credit for equity-settled share-based payment | – | – | 75 | – | – | **75** | – | **75** |
| Issue of new share capital | 40 | – | – | – | – | **40** | – | **40** |
| Premium on new share capital | – | 4,230 | – | – | – | **4,230** | – | **4,230** |
| Share issue costs | – | (229) | – | – | – | **(229)** | – | **(229)** |
| **Transactions with owners** | 40 | 4,001 | 75 | – | – | **4,116** | – | **4,116** |
| **Balance at 31 December 2014** | 501 | 28,051 | 821 | (685) | (10,427) | **18,261** | 530 | **18,791** |
| Loss for the year | – | – | – | – | (16,569) | **(16,569)** | (67) | **(16,636)** |
| Exchange difference on retranslation of net assets and results of overseas subsidiaries | – | – | – | 146 | – | **146** | (7) | **139** |
| **Total comprehensive loss for the year** | – | – | – | 146 | (16,569) | **(16,423)** | (74) | **(16,497)** |
| Reserve credit for equity-settled share-based payment | – | – | 54 | – | – | **54** | – | **54** |
| Issue of new share capital | 231 | – | – | – | – | **231** | – | **231** |
| Premium on new share capital | – | 9,845 | – | – | – | **9,845** | – | **9,845** |
| Share issue costs | – | (474) | – | – | – | **(474)** | – | **(474)** |
| **Transactions with owners** | 231 | 9,371 | 54 | – | – | **9,656** | – | **9,656** |
| **Balance at 31 December 2015** | **732** | **37,422** | **875** | **(539)** | **(26,996)** | **11,494** | **456** | **11,950** |

The notes on pages 44 to 73 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

For the year ended 31 December 2015

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 12 | **9,786** | 14,363 |
| Property, plant and equipment | 13 | **943** | 1,112 |
| Total non-current assets | | **10,729** | 15,475 |
| **Current assets** | | | |
| Inventories | 14 | **2,815** | 2,881 |
| Trade and other receivables | 15 | **9,277** | 15,541 |
| Cash and cash equivalents | 16 | **5,392** | 3,697 |
| Total current assets | | **17,484** | 22,119 |
| Total assets | | **28,213** | 37,594 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **(8,629)** | (9,816) |
| Bank loans | 18 | **(1,123)** | (927) |
| Total current liabilities | | **(9,752)** | (10,743) |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 10 | **(1,157)** | (1,336) |
| Trade and other payables | | **(203)** | (120) |
| Bank loans | 18 | **(4,500)** | (6,000) |
| Other payables | 19 | **(651)** | (604) |
| Total non-current liabilities | | **(6,511)** | (8,060) |
| Total liabilities | | **(16,263)** | (18,803) |
| **Net assets** | | **11,950** | 18,791 |

# Consolidated statement of financial position continued

For the year ended 31 December 2015

| | Notes | 2015 £'000 | 2014 Restated £'000 |
|---|---|---|---|
| **Equity attributable to owners of the Parent Company** | | | |
| Ordinary share capital | 20 | **732** | 501 |
| Share premium | 20 | **37,422** | 28,051 |
| Share-based payment reserve | | **875** | 821 |
| Translation reserves | | **(539)** | (685) |
| Retained earnings | | **(26,996)** | (10,427) |
| **Equity attributable to shareholders of the Company** | | **11,494** | 18,261 |
| **Non-controlling interests** | | **456** | 530 |
| **Total equity** | | **11,950** | 18,791 |

The notes on pages 44 to 73 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 06 April 2016 and signed on its behalf by:

**Richard Green**
Chief Executive Officer
Ubisense Group Plc

Registered Number: 05589712

# Consolidated statement of cash flows

For the year ended 31 December 2015

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Loss before tax** | | **(17,268)** | (4,778) |
| Adjustments for: | | | |
| Depreciation | 9, 13 | **388** | 359 |
| Amortisation and impairment | 9, 12 | **7,294** | 4,956 |
| Loss on the disposal of property, plant and equipment | 9 | **–** | 22 |
| Share-based payments charge | 21.2 | **54** | 75 |
| Finance income | 8 | **(12)** | (14) |
| Finance costs | 8 | **301** | 211 |
| **Operating cash flows before working capital movement** | | **(9,243)** | 831 |
| Change in inventories | | **66** | (293) |
| Change in receivables | | **6,264** | (3,661) |
| Change in payables | | **(1,010)** | 447 |
| Cash used in operations before tax | | **(3,923)** | (2,676) |
| Net income taxes received/(paid) | | **436** | 47 |
| **Net cash flows from operating activities** | | **(3,487)** | (2,629) |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | | **–** | (509) |
| Disposal of subsidiaries, net of cash disposed | 24 | **(3)** | – |
| Purchases of property, plant and equipment | | **(196)** | (885) |
| Proceeds on disposal of property, plant and equipment | | **4** | 1 |
| Expenditure on intangible assets | | **(2,652)** | (3,500) |
| Interest received | | **12** | 14 |
| **Net cash flows from investing activities** | | **(2,835)** | (4,879) |
| **Cash flows from financing activities** | | | |
| Proceeds of borrowings | | **522** | 3,427 |
| Repayment of borrowings | | **(2,000)** | – |
| Interest paid | | **(277)** | (151) |
| Proceeds from the issue of ordinary share capital | | **9,602** | 4,041 |
| **Net cash flows from financing activities** | | **7,847** | 7,317 |
| **Net (decrease)/increase in cash and cash equivalents** | | **1,525** | (191) |
| Cash and cash equivalents at start of period | | **3,697** | 3,964 |
| Exchange differences on cash and cash equivalents | | **170** | (76) |
| **Cash and cash equivalents at end of period** | 16 | **5,392** | 3,697 |

The notes on pages 44 to 73 are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

## 1 General information

Ubisense Group Plc (the Company) and its subsidiaries (together, the Group) deliver best-in-class asset location solutions that significantly improve operational effectiveness and profitability for businesses around the world.

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 United Kingdom. The value of Ubisense Group Plc shares, as quoted on the London Stock Exchange plc at 31 December 2015, was 43.0 pence per share (31 December 2014: 120.0 pence).

The Company was incorporated as Ubisense Trading Limited on 11 October 2005 and changed its name to Ubisense Group Plc on 31 May 2011 ahead of its initial public offering and listing on AIM on 22 June 2011. The address of its registered office is St. Andrew's House, St. Andrew's Road, Chesterton, Cambridge, CB4 1DL.

The Group has its main operations in the UK, USA, Canada, Germany, France and Japan and sells mainly in North America, Europe and Asia. The Group legally consists of 10 companies headed by Ubisense Group Plc (UK). A full list of subsidiaries is given in note 23 of the financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on 06 April 2016.

## 2 New accounting standards

For the purposes of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations as adopted in the European Union that are effective for accounting periods beginning on or after 1 January 2015.

The accounting policies used are the same as set out in detail in the annual report 2014 and have been applied consistently to all periods presented in these financial statements. No new standards or amendments or interpretations to existing standards have become effective in the year. No new standards, amendments or interpretations to existing standards having an impact on these financial statements that have been published and that are mandatory for the Group's accounting periods beginning on or after 1 January 2016, or later periods, have been adopted early. The Directors do not consider that the adoption of these standards and interpretations would have a material impact on the Group's financial statements.

### Standards and interpretations not yet applied by the Group

The following new standards and interpretations, which are yet to become mandatory, have not been applied in the Group's financial statements.

- Amendment to IAS 16 'Property, plant and equipment' (effective date financial year commencing on/after 1 January 2016).
- Amendment to IAS 38 'Intangible assets' (effective date financial year commencing on/after 1 January 2016).
- Annual improvements 2014 (effective date financial year commencing on/after 1 January 2016).
- IFRS 9 'Financial Instruments' (effective date financial year commencing on/after 1 January 2018).
- IFRS 15 'Revenue from contracts with customers' (effective date financial year commencing on/after 1 January 2018).

All standards and interpretations are not expected to have any significant impact on the financial statements when applied.

## 3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

The consolidated financial statements of Ubisense Group Plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention. The consolidated financial statements are presented in GBP and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The preparation of these financial statements in conformity with IFRS requires the Directors to make certain critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

## Going concern basis

The Directors are required to review the basis on which the accounts are prepared and continue to believe that a going concern basis is appropriate. In reaching their conclusion they recognise that the Group meets its day-to-day working capital requirements through its bank facilities.

The Group had cash of £5.4 million at the balance sheet date, reducing to £2.2 million at the end of March 2016, following the repayment of the Mizuho loan. As disclosed in note 18, the Group is in breach of the financial and operating covenants associated with its major bank facility of £4.5 million, however it is in constructive discussions with its lending bank which remains supportive and has indicated that it is not planning to take action following the breaches at 31 December 2015 and 31 March 2016. Further, the Group and its lending bank anticipate concluding a new loan facility with appropriate covenants having already agreed the outline of a multi-year repayment plan.

In reaching their going concern conclusion, the Directors have considered the following points:

- Net debt at end March 2016 was £2.35 million with £2.15 million cash and £4.5 million HSBC debt.
- An opportunity funnel mainly from existing customers that exceeds revenue target for 2016 (H1 and Full Year).
- Customers continue to expand and extend deployments rather than decommission them.
- Sales recruitment continues providing the headcount to build sales momentum.
- Sales process work continues to be developed and embedded into the business.

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 12 months from the date of this report. The Group, therefore, continues to adopt the going concern basis in preparing its financial statements.

In addition, the Group has considered its funding options and expects to announce a conditional share placing in order to strengthen the balance sheet, reduce the loan outstanding and permit selective investment in the business.

## Consolidation

The Group financial statements include the results, financial position and cash flows of the Company and all of its subsidiary undertakings. Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control arises when the Company has the power to govern the financial and operating policies of an entity, uses this power to affect the returns from that entity and has exposure to variable returns from its investment in the entity.

Co-terminus financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. Businesses acquired or disposed during the year are accounted for using acquisition method principles from, or up to, the date control passed. Intra-group transactions and balances are eliminated on consolidation. All subsidiaries use uniform accounting policies for like transactions and other events and similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of combination.

## Foreign currencies

### (a) Functional and presentation currency

The functional currency of each Group entity is the currency of the primary economic environment in which each entity operates. The consolidated financial statements are presented in GBP.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency of each Group entity using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at rates ruling at the period end date. Such exchange differences are included in the income statement within "operating expenses". Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

# Notes to the consolidated financial statements continued

## 3 Summary of significant accounting policies continued

### (c) Consolidation

For the purpose of presenting consolidated financial statements, the results and financial position of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency other than GBP are translated into GBP as follows:

- assets and liabilities for each statement of financial position are translated at the exchange rate at the period end date;
- income and expenses for each income statement are translated at the exchange rate ruling at the time of each period the transaction occurred; and
- all resulting exchange differences are recognised in other comprehensive income.

### Segment reporting

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 into two operating segments based on the Group's Divisions: Real-Time Location Systems (RTLS) and Geospatial. The Directors believe that the Chief Operating Decision Maker (CODM) is the Chief Executive Officer of the Group. The CODM and the rest of the Board are provided with information on a divisional basis to assess the financial performance of, and allocate resources to, the Group.

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.

### Revenue recognition

Revenue represents amounts derived from the provision of goods and services which fall within the Group's ordinary activities, exclusive of discounts, value added tax and other similar sales taxes. Revenue is measured by reference to the fair value of consideration received or receivable.

Revenues on product sales are recognised at the time that units are shipped, except for shipments under arrangements involving significant acceptance requirements. Under such arrangements, revenue is recognised when the Group has substantially met all its performance obligations.

Revenue earned from sales under licence agreements is recognised when the software is made available. When the sale includes a period of support and maintenance, a proportion of the revenue is deferred and recognised as straight-line over the period of support. For licence rental fees, amounts are recognised over the period of the contract, commencing from when the software is available for use.

Services and training revenue from time and materials contracts is recognised in the period that the services and training 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, including customisation and modification, 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.

Where bundled sales including a combination of some or all of the above are made, the revenue attributable to the deal is apportioned across the constituents of the bundle, and then recognised according to the policies stated above.

### Employee benefits

#### (a) Retirement benefits

The Group operates various defined contribution pension arrangements for its employees.

For defined contribution pension arrangements, the amount charged to the income statement represents the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

### (b) Share-based payments
The Group issues equity-settled share-based payments to certain employees. Vesting conditions are continuing employment and, for senior employees, a diluted EPS performance target. Equity-settled share-based payments are measured at fair value at the date of grant using the Black-Scholes pricing model. The fair value is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity in the share-based payment reserve, based on the Group's estimate of the number of shares that will eventually vest.

### (c) Termination benefits
Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

## Operating lease income and expense
The Group as the lessor

### (a) Rental income
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating the lease are recognised as straight-line over the lease term.

The Group as the lessee

### (b) Rental expense
Operating lease rentals are charged as operating expenses to the income statement in equal annual amounts over the lease term. Assets leased under operating leases are not recorded in the statement of financial position because the lessor retains a significant portion of the risks and rewards of ownership.

### (c) Lease incentives
The benefit of lease incentives such as rent-free periods or up-front cash payments are spread equally on a straight-line basis over the lease term.

## Non-recurring items
Non-recurring items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material one-off items of income or expense that have been shown separately due to the significance of their nature or amount and do not reflect the on-going cost base or revenue-generating ability of the Group.

## Interest income and expense
Interest income and expense is included in the income statement on a time basis, using the effective interest method by reference to the principal outstanding.

## Tax
The tax charge or credit comprises current tax payable and deferred tax:

### (a) Current tax
The current tax charge represents an estimate of the amounts payable or receivable to or from tax authorities in respect of the Group's taxable profits and is based on an interpretation of existing tax laws. Taxable profit differs from profit before tax as reported in the income statement because it excludes certain items of income and expense that are taxable or deductible in other years or are never taxable or deductible. Taxation received is recognised only when it is probable that the Group is entitled to the asset.

# Notes to the consolidated financial statements continued

## 3 Summary of significant accounting policies continued

### (b) Deferred tax

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax liabilities are always provided in full. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date. Deferred tax is recognised as a component of tax expense in the income statement, except where it relates to items charged or credited directly to other comprehensive income or equity when it is recognised in other comprehensive income or equity.

### Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their provisional fair values at the acquisition date. Fair values are reassessed during the measurement period and updated if required. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

### Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Goodwill arising on an acquisition of a business is the difference between the fair value of the consideration paid and the net fair value of the assets and liabilities acquired. Goodwill is carried at cost less accumulated impairment losses.

### Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is only capitalised if all of the following conditions are met:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;

- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Internally-generated intangible assets, consisting mainly of direct labour costs, are amortised on a straight-line basis over their useful economic lives. Amortisation is shown within administrative expenses in the income statement. The estimated useful lives of current development projects are three years. Upon completion the assets are subject to impairment testing.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### Other intangible assets
Intangible assets that are purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost and amortised on a straight-line basis over their useful economic life which is typically three years.

### Acquired intangible assets
Intangible assets acquired through a business combination are initially measured at fair value and amortised on a straight-line basis over their useful economic lives. Amortisation is shown within operating expenses in the income statement. The useful economic lives of the intangible assets recognised on acquisition are as follows:
- Software products recognised on acquisition: three years.
- Customer relationships recognised on acquisition: three years.
- Order backlog: based on contract life recognised on acquisition, typically less than one year.

### Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged to the income statement so as to write-off the cost or valuation less estimated residual values over their expected useful lives on a straight-line basis over the following periods:
- Fixtures and fittings: three to 10 years, or period of the lease if shorter.
- Computer equipment: three years.

Residual values and useful economic lives are assessed annually. The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating expenses.

### Impairment of non-financial assets
Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested at least annually for impairment and whenever there is an indication that the asset may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses are recognised immediately in profit or loss.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss is reversed, it is reversed to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is the actual cost of third-party components and labour, and is applied on a first in, first out basis. Net realisable value is based on estimated selling price less additional cost to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate and are recognised as an expense in the period in which the write-down or loss occurs.

# Notes to the consolidated financial statements continued

## 3 Summary of significant accounting policies continued

### Trade receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of debt facilities are recognised as transaction costs of the debt to the extent that it is probable that some or all of the facility will be drawn-down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn-down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

All borrowing costs are recognised in the income statement in the period they are incurred.

### Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The nominal value of shares issued is classified as share capital and the amounts paid over the nominal value in respect of share issues, net of related costs, is classified as share premium.

### Share-based payment reserve

The share-based payment reserve relates to a cumulative charge made in respect of share options granted by the Company to the Group's employees under its employee share option plans.

### Translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency of GBP, are recognised directly in other comprehensive income and accumulated in the translation reserve.

## 4 Critical accounting judgements and key sources of estimation and uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### Impairment of goodwill and intangible assets

The Group tests goodwill for impairment annually in accordance with the accounting policy stated in note 3. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The Group uses pre-tax discount rates of 11.5% for this purpose. The carrying amount of goodwill at 31 December 2015 is £4.3 million, following an impairment of £4.0 million. Further consideration of the impairment of goodwill is included in note 12.

### Capitalisation of development costs

The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgement of the point at which technical and commercial feasibility is demonstrable. The carrying amount of capitalised development costs at 31 December 2015 is £4.0 million.

### Revenue recognition

Significant management judgement is applied in determining the allocation and timing of the recognition of revenue on fixed price, long-term customer specific contracts. In this process management takes into account milestones, hardware supplied, actual work performed, and further obligations and costs expected to complete the work. The carrying value of amounts recoverable on contracts at 31 December 2015 is £2.1 million.

### Inventories

The provision for obsolete, slow-moving or defective inventory is based on management's estimation of the commercial life of inventory lines and is applied on a prudent basis. In assessing this, management takes into consideration the sales history of products and the length of time that they have been available for resale.

### Deferred tax

A deferred tax asset is recognised where the Group considers it probable that future tax profits will be available against which the tax credit will be utilised in the future. This specifically applies to tax losses and to outstanding vested share options at the statement of financial position date. In estimating the amount of the deferred tax asset that should be recognised, the Directors make judgements based on current budgets and forecasts about the amount of future taxable profits and the timings of when these will be realised. No deferred tax asset is currently recognised.

### Valuation of separately identifiable intangible assets

As detailed in note 3, separately identifiable intangible assets are identified and amortised over defined periods. The Directors use an acknowledged valuation approach but this is reliant upon certain judgements which they determine are reasonable by reference to companies in similar industries.

### Contingent consideration

The Group initially estimates the amounts payable under 'earn-out' plans to the former shareholders of acquired companies based on the business model produced at the time of acquisition. Earn-out clauses within acquisition agreements typically contain provisions for amounts payable to the former shareholders based on future financial performance. In order to calculate the expected future payments, the acquisition business model contains estimates of the future financial performance for the acquired business.

The post-acquisition performance and expected future performance of acquired companies is reviewed throughout the year. Any adjustments required to contingent consideration arising from a significant departure of financial performance from the original acquisition plan are made as required and recognised through the profit and loss.

The Directors do not consider that there are any other critical accounting judgements or key sources of estimation uncertainty.

## 5 Segment information

### 5.1 Operating segments

Management has determined the operating segments to be the Group's Divisions 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 Real-Time Location Systems (RTLS) 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.

# Notes to the consolidated financial statements continued

## 5 Segment information continued

### 5.1 Operating segments continued

The Geospatial Division delivers software solutions that integrates 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.

Each operating segment is managed separately by a business unit leader as each deal 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 RTLS or Geospatial Division 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.

| Year ended 31 December 2015 | RTLS £'000 | Geospatial £'000 | Central £'000 | Total £'000 |
|---|---|---|---|---|
| Revenues | 6,445 | 15,458 | 79 | 21,982 |
| Cost of revenues | (3,694) | (10,545) | (51) | (14,290) |
| Gross profit | 2,751 | 4,913 | 28 | 7,692 |
| Sales and marketing costs | (2,810) | (1,800) | (472) | (5,082) |
| Contribution | (59) | 3,113 | (444) | 2,610 |
| Other operating costs | | | (7,832) | (7,832) |
| Adjusted EBITDA | | | (8,276) | (5,222) |
| Depreciation | | | (388) | (388) |
| Amortisation of intangibles | | | (7,294) | (7,294) |
| Non-recurring items | | | (4,075) | (4,075) |
| Operating loss | | | (20,033) | (16,979) |
| Finance costs | | | (289) | (289) |
| Loss before tax | | | (20,322) | (17,268) |
| Income tax | | | 632 | 632 |
| Loss after tax | | | (19,690) | (16,636) |

In the prior year, the Group was organised into a single Enterprise Location Intelligence business unit. This was the basis of the Group's external market offering and internal organisation at that time and the CODM received information in this way. The Group had one reportable segment under IFRS8 in the year ending 31 December 2014.

Data is not available to report full comparative information for the current reportable segments due to the excessive effort and cost that would be involved to develop it. Revenue is as follows:

| Year ended 31 December 2014 | RTLS £'000 | Geospatial £'000 | Central £'000 | Total £'000 |
|---|---|---|---|---|
| Revenues | 8,053 | 26,984 | 14 | 35,051 |

In the previous year, revenue from the single Enterprise Location Intelligence business unit was reported by the nature of revenue. Information has been prepared for the year ending 31 December 2015, although it was not reported to the CODM during 2015.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Solutions | 12,782 | 20,067 |
| Services | 9,200 | 14,984 |
| **Total revenues** | **21,982** | 35,051 |

### 5.2 Geographical areas

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. Non-current assets are allocated based on their physical location.

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| UK | **487** | 1,584 | **6,412** | 7,607 |
| France | **616** | 784 | **4** | 24 |
| Germany | **3,074** | 11,782 | **1,242** | 2,197 |
| Europe other | **580** | 362 | **–** | – |
| USA | **12,131** | 13,061 | **1,008** | 2,015 |
| Canada | **1,423** | 976 | **2** | 4 |
| Japan | **3,330** | 6,015 | **2,061** | 3,621 |
| Asia Pacific other | **337** | 416 | **–** | 7 |
| Rest of World | **4** | 71 | **–** | – |
| | **21,982** | 35,051 | **10,729** | 15,475 |

### 5.3 Information about major customers

Included in revenues arising from the Geospatial Division are revenues of approximately £1.5 million (2014: £1.4 million) which arose from sales to the Group's largest customer. No single customer contributed 10% or more to the Group's revenue in 2015, but another Geospatial customer contributed £4.4 million in 2014.

## 6 Employee information

### 6.1 Employee numbers

The average monthly number of people, including Executive Directors, employed by the Group during the year was:

| | Actual number of people as at 31 December | | Average monthly number of people | |
|---|---|---|---|---|
| By activity | **2015 Number** | 2014 Number | **2015 Number** | 2014 Number |
| Technical consultants | **89** | 134 | **103** | 135 |
| Sales & marketing | **38** | 46 | **45** | 45 |
| Research & development | **31** | 33 | **33** | 32 |
| Administration | **22** | 37 | **27** | 38 |
| | **180** | 250 | **208** | 250 |

| By geography | **2015 Number** | 2014 Number | **2015 Number** | 2014 Number |
|---|---|---|---|---|
| United Kingdom | **44** | 61 | **54** | 63 |
| Europe | **39** | 69 | **44** | 63 |
| Americas | **63** | 79 | **71** | 80 |
| Asia | **34** | 41 | **39** | 44 |
| | **180** | 250 | **208** | 250 |

# Notes to the consolidated financial statements continued

## 6 Employee information continued

### 6.2 Employee benefits

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| Wages and salaries | | **15,768** | 15,905 |
| Social security costs | | **1,362** | 1,512 |
| Contributions to defined contribution pension arrangements | | **581** | 784 |
| Share-based payments | 21.2 | **54** | 75 |
| **Total aggregate employee benefits** | | **17,765** | 18,276 |

Included in the wages and salaries figure above are termination benefits of £2.0 million (2014: £0.5 million) which are presented as non-recurring costs in the income statement – see note 9.2.

### 6.3 Key management compensation

Key management includes Directors (Executive and Non-Executive) and members of the Executive management team. During the year, there was an average number of 11 key management personnel (2014: 10) and 12 personnel at 31 December 2015 (2014: 11). The compensation paid or payable to key management for employee services is shown below:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Short-term employee benefits** | | |
| Wages and salaries | **1,371** | 973 |
| Social security costs | **95** | 95 |
| Other benefits | **5** | 19 |
| | **1,471** | 1,087 |
| **Post-employment benefits** | | |
| Contributions to defined contribution pension arrangements | **26** | 47 |
| **Share-based payments** | | |
| Equity-settled share-based payments | **3** | 25 |
| **Total key management compensation** | **1,500** | 1,159 |

Included in the wages and salaries figure above are termination benefits of £263,000 (2014: £nil) which are presented as non-recurring costs in the income statement – see note 9.2.

## 7 Directors' remuneration and interests

### 7.1 Directors' remuneration

| Director | Basic salary £'000 | Benefits in kind £'000 | Termination benefits £'000 | Subtotal £'000 | Employer's contributions to defined contribution pension £'000 | Total 2015 £'000 | Total 2014 £'000 |
|---|---|---|---|---|---|---|---|
| Robert Parker | 83 | 1 | 132 | 216 | 4 | **220** | 200 |
| Richard Green* | 180 | 3 | – | 183 | 20 | **203** | 289 |
| Peter Harverson** | 94 | – | – | 94 | – | **94** | 20 |
| Andrew Hopper | 30 | – | – | 30 | – | **30** | 28 |
| Robert Sansom*** | – | – | – | – | – | **–** | – |
| Paul Taylor** | 51 | – | – | 51 | – | **51** | 20 |
| Ian Kershaw | 20 | – | – | 20 | – | **20** | 12 |
| Total | 458 | 4 | 132 | 594 | 24 | **618** | 569 |

* Remuneration is through the Group's flexible benefits scheme under which the individual can elect to switch basic salary into pension contributions and other benefits. The basic salary entitlement in the year was £190,000.

** Included for Peter Harverson and Paul Taylor in 2015 (2014: £nil) are amounts of £25,000 each for Directors fees and £69,000 and £26,000 respectively for additional duties requested by the Board.

*** Robert Sansom has waived his entitlement to annual remuneration in the year of £20,000 (2014: £20,000 waived).

### 7.2 Directors' interests – share options

| Director | Award date Years | Vests Years | Expires Year | Exercise Price £ | Awards outstanding at 1 January 2015 Number | Ceased to be a Director during the year Number | Granted during the year Number | Exercised during the year Number | Lapsed during the year Number | **Awards outstanding at 31 December 2015 Number** | Awards exercisable at 31 December 2015 Number |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Richard Green | 2011 | 2012–14 | 2021 | 1.050 | 100,000 | – | – | – | – | **100,000** | 100,000 |
| | 2012 | 2013–15 | 2022 | 2.125 | 60,000 | – | – | – | – | **60,000** | 60,000 |
| | 2013 | 2014–16 | 2023 | 2.055 | 60,000 | – | – | – | – | **60,000** | 60,000 |
| | 2014 | 2015–17 | 2024 | 2.250 | 75,000 | – | – | – | – | **75,000** | – |
| | | | | | 295,000 | – | – | – | – | **295,000** | 220,000 |
| Robert Parker | 2014 | 2015–17 | 2024 | 2.250 | 60,000 | (60,000) | – | – | – | **–** | – |
| Peter Harverson | 2010 | 2011–13 | 2020 | 0.140 | 91,333 | – | – | – | – | **91,333** | 91,333 |
| Andrew Hopper | 2010 | 2011–13 | 2020 | 0.140 | 20,278 | – | – | (20,278) | – | **–** | – |
| **Total** | | | | | 466,611 | (60,000) | – | (20,278) | – | **386,333** | 311,333 |

During the year, no Directors have been granted share options in the Company or other Group entities. None of the terms and conditions of the existing share options were varied during the year. The market price of the Company's shares at the end of the financial year was £0.43 pence. The range of market prices during the year was between £1.26 and £0.42 pence.

Ian Kershaw, Robert Sansom and Paul Taylor do not have any share options at 31 December 2015 (31 December 2014: nil). There have been no options granted to or exercised by Directors between 31 December 2015 and 06 April 2016.

### Directors' gains on share options

| | **Gain on exercise 2015 £'000** | Gain on exercise 2014 £'000 |
|---|---|---|
| Andrew Hopper | **6** | – |

### 7.3 Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group Plc, at 31 December 2015 and 31 December 2014, were as follows:

| | **2015 Number** | 2014 Number |
|---|---|---|
| Richard Green* | **1,844,462** | 1,734,906 |
| Robert Sansom | **2,985,899** | 2,493,676 |
| Andrew Hopper | **277,401** | 225,000 |
| Peter Harverson | **65,161** | 65,161 |
| Paul Taylor | **33,334** | |
| Ian Kershaw | **2,000** | – |
| | **5,208,257** | 4,518,743 |

* Includes 115,617 (2014: 115,617) shares held by the RT Green Children's Trust of which Richard Green is a trustee.

There has been no change in the interests set out above between 31 December 2015 and 06 April 2016.

# Notes to the consolidated financial statements continued

## 8 Finance income and costs

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Interest income from cash and cash equivalents | **12** | 14 |
| **Finance income** | **12** | 14 |
| Interest payable – bank | **(287)** | (197) |
| Interest payable – other | **(14)** | (14) |
| **Finance costs** | **(301)** | (211) |
| **Net finance costs** | **(289)** | (197) |

## 9 Loss before tax: analysis of expenses by nature

### 9.1 Expenses by nature

The following items have been charged/(credited) to the income statement in arriving at loss before tax:

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| Amortisation of acquired intangible assets | 12 | **309** | 751 |
| Impairment of goodwill and acquired intangibles | 12 | **4,043** | 1,268 |
| Amortisation and impairment of other intangible assets | 12 | **2,942** | 2,937 |
| Depreciation of owned property, plant and equipment | 13 | **388** | 359 |
| Loss on disposal of property, plant and equipment | | **–** | 22 |
| Operating lease rental charges – land and buildings | | **677** | 715 |
| Operating lease rental charges – other | | **63** | 167 |
| Inventory recognised as an expense | | **1,478** | 2,884 |
| Research and development costs expensed | | **581** | 766 |
| Net foreign currency losses/(gains) | | **175** | (180) |
| Non-recurring items (excluding impairment of goodwill) | 9.2 | **4,075** | 1,095 |
| Auditors' remuneration | 9.3 | **166** | 254 |

### 9.2 Non-recurring items

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Reorganisation costs | **3,163** | 458 |
| Disposal of subsidiary companies | **809** | – |
| Strategic Asia-Pacific market entry costs | **–** | 603 |
| Unrealised foreign exchange losses on intercompany trading balances | **37** | – |
| Aborted acquisition costs | **7** | 34 |
| Others | **59** | – |
| **Total non-recurring items** | **4,075** | 1,095 |

During 2015, the Group incurred reorganisation costs totalling £3.2 million comprising mainly redundancy costs in order to align the employee base with the future strategy of the Group. The employment terminations in 2015 are expected to provide annualised cost savings of £4.0 million in 2016.

The Group disposed of two subsidiary companies during the year and incurred costs relating to exits from these markets. More details are included in note 24.

Foreign exchange losses on unrealised intercompany trading balances of £37,000 were incurred. These will be non-recurring due to the conversion of trading balances to long-term loans in 2016.

The Group incurred £7,000 of costs (2014: £34,000), mainly comprising professional fees, in connection with a potential future acquisition. The acquisition plans have been aborted. During 2014, the Group incurred £603,000 of non-recurring expenditure relating to strategic Asia Pacific market entry. No such costs were incurred in 2015.

### 9.3 Auditors' remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Fees payable to the Group's auditor for the audit of: | | |
| Parent Company and consolidated financial statements | **35** | 27 |
| Financial statements of subsidiaries, pursuant to legislation | **91** | 100 |
| **Total audit fees** | **126** | 127 |
| Fees payable to the Group's auditor for other services: | | |
| Tax services | **27** | 74 |
| Corporate finance services | **–** | 53 |
| Other services | **13** | – |
| **Total non-audit fees** | **40** | 127 |
| **Total auditors' remuneration** | **166** | 254 |

The auditor of Ubisense Group Plc is Grant Thornton UK LLP.

## 10 Income tax

### 10.1 Income tax recognised in the income statement

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | **–** | – |
| Foreign tax | **69** | 238 |
| Research and development tax credits – prior years | **(524)** | (537) |
| **Total current tax credit** | **(455)** | (299) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(177)** | (437) |
| **Total deferred tax credit** | **(177)** | (437) |
| **Total income tax credit** | **(632)** | (736) |

The tax credit differs from the standard rate of corporation tax in the UK for the year of 20.3% (2014: 21.5%) for the following reasons:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Loss before tax** | **(17,268)** | (4,778) |
| Loss before tax multiplied by the standard rate of corporation tax in the UK of 20.3% (2014: 21.5%) | **(3,505)** | (1,027) |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | **829** | 137 |
| Accrued contingent consideration released not subject to tax | **–** | 7 |
| Utilisation of previously unrecognised tax losses | **(94)** | 77 |
| Tax losses for which no deferred tax asset was recognised | **3,526** | 734 |
| Tax unprovided in prior years | **54** | – |
| Research and development tax credits – prior years | **(524)** | (537) |
| Difference on tax treatment of share options – unrecognised | **(223)** | 17 |
| Re-measurement of deferred tax – change of tax rate | **(42)** | 120 |
| Differential on overseas tax rates | **(712)** | (31) |
| Other unrecognised temporary differences | **59** | (233) |
| **Total income tax credit** | **(632)** | (736) |

# Notes to the consolidated financial statements continued

## 10 Income tax continued

### 10.2 Factors that may affect future tax charges

The Group has tax losses of £10.5 million (2014: £9.3 million) that are available for offset against future taxable profits of those subsidiary companies in which the tax losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, and they have arisen in subsidiaries whose future taxable profits are uncertain. No deferred tax has been recognised on the unremitted earnings of overseas subsidiaries, because the earnings are continually reinvested by the Group and no tax is expected to be payable on them in the foreseeable future.

On 26 October 2015, the UK Government substantially enacted reductions to the UK corporation tax rates. Effective from 1 April 2017, the UK corporation tax rate will reduce to 19% from 20% and effective from 1 April 2020, the rate will further reduce to 18%. As a result, the deferred tax balances have been re-measured at 19%, the rate of realisation expected.

### 10.3 Deferred tax

The movement in deferred tax in the consolidated statement of financial position during the year is as follows:

| | Deferred income tax assets | | Deferred income tax liabilities | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| At 1 January | **–** | – | **(1,336)** | (1,773) |
| Deferred tax credited to the income statement | **–** | – | **780** | 1,085 |
| Deferred tax charged to the income statement | **–** | – | **(603)** | (648) |
| **At 31 December** | **–** | – | **(1,157)** | (1,336) |

The components of deferred tax included in the consolidated statement of financial position are as follows:

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Development costs capitalised | **(797)** | (888) |
| Intangible assets recognised on acquisition of subsidiaries | **(360)** | (448) |
| Total deferred income tax liabilities | **(1,157)** | (1,336) |

Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits:

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Tax losses carried forward | **2,864** | 2,546 |
| Equity-settled share options temporary differences | **24** | 201 |
| Total unrecognised deferred tax assets | **2,888** | 2,747 |

## 11 Earnings per share (EPS)

| | 2015 | 2014 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of basic and diluted EPS being net loss attributable to equity holders of the Parent Company (£'000) | **(16,569)** | (4,085) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic EPS ('000) | **31,657** | 24,541 |
| *Effect of dilutive potential ordinary shares:* | | |
| — Share options ('000) | **418** | 969 |
| Weighted average number of ordinary shares for the purposes of diluted EPS ('000) | **32,075** | 25,510 |
| Basic EPS (pence) | **(52.3)** | (16.7) |
| Diluted EPS (pence) | **(52.3)** | (16.7) |

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 all dilutive share options and warrants outstanding at the end of the year. Options have no dilutive effect in loss-making years, and hence the diluted loss per share for the year 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 items/impairment from the measurement of profit for the period.

| | Notes | 2015 | 2014 |
|---|---|---|---|
| Earnings for the purposes of diluted EPS being net loss attributable to equity holders of the Parent Company (£'000) | | **(16,569)** | (4,085) |
| *Adjustments:* | | | |
| Reversal of amortisation on acquired intangible assets (£'000) | 9, 12 | **309** | 751 |
| Impairment of goodwill and acquired intangible assets (£'000) | 9, 12 | **4,043** | 1,268 |
| Reversal of share-based payments charge (£'000) | 21.2 | **54** | 75 |
| Reversal of non-recurring items (£'000) | 9.2 | **4,075** | 1,095 |
| Net adjustments (£'000) | | **8,481** | 3,189 |
| Adjusted earnings (£'000) | | **(8,088)** | (896) |
| Adjusted diluted EPS (pence) | | **(25.2)** | (3.5) |

The adjusted EPS information is considered to provide a fairer representation of the Group's trading performance.

# Notes to the consolidated financial statements continued

## 12 Intangible assets

| | Goodwill £'000 | Acquired customer relationships and order backlog £'000 | Acquired software products £'000 | Capitalised product development costs £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2014 | 9,619 | 2,042 | 937 | 7,461 | 633 | 20,692 |
| Effects of movement in exchange rates | (203) | (205) | (52) | – | (38) | (498) |
| Additions | – | – | – | 2,956 | 544 | 3,500 |
| At 31 December 2014 | 9,416 | 1,837 | 885 | 10,417 | 1,139 | 23,694 |
| Exchange difference | 91 | 63 | 16 | – | 68 | 238 |
| Additions | – | – | – | 2,499 | 152 | 2,651 |
| Disposals | (1,193) | – | (338) | (511) | (59) | (2,101) |
| **At 31 December 2015** | **8,314** | **1,900** | **563** | **12,405** | **1,300** | **24,482** |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2014 | – | (268) | (414) | (3,541) | (222) | (4,445) |
| Effects of movement in exchange rates | – | 36 | 11 | (1) | 24 | 70 |
| Charge for the year | – | (497) | (254) | (2,568) | (289) | (3,608) |
| Impairment for the year | (1,192) | (76) | – | (80) | – | (1,348) |
| At 31 December 2014 | (1,192) | (805) | (657) | (6,190) | (487) | (9,331) |
| Effects of movement in exchange rates | – | (24) | (11) | – | (52) | (87) |
| Charge for the year | – | (189) | (119) | (2,609) | (279) | (3,196) |
| Elimination on disposal | 1,192 | – | 338 | 429 | 57 | 2,016 |
| Impairment for the year | (4,043) | – | – | (55) | – | (4,098) |
| **At 31 December 2015** | **(4,043)** | **(1,018)** | **(449)** | **(8,425)** | **(761)** | **(14,696)** |
| **Net book amount** | | | | | | |
| **At 31 December 2015** | **4,271** | **882** | **114** | **3,980** | **539** | **9,786** |
| At 31 December 2014 | 8,224 | 1,032 | 228 | 4,227 | 652 | 14,363 |

The acquired software products, customer relationships and order backlog assets arose on the acquisition in 2013 of the Geoplan group of companies and in 2011 of Integrated Mapping Solutions, Inc. (now merged into Ubisense Inc.) and Realworld OO Systems Limited (now re-named Geospatial Systems Limited). Capitalised development assets relate to expenditure that can be applied to a plan or design for the production of new or substantially improved products and processes. The software assets represent assets purchased from third parties.

During the year, an impairment expense of £4,043,000 was recognised in respect of goodwill (2014: £1,192,000), £55,000 in respect of capitalised development costs (2014: £80,000) and £nil in respect of acquired customer relationships and order backlog (2014: £76,000).

The goodwill impairment expense in 2015 writes down the goodwill to the present value of the future cash flows from services revenues, which is lower than previously estimated due to the challenging trading period that the Group had during 2015. The impairment expense in 2014 relating to goodwill and unamortised customer relationships attributable to the acquisition of Realworld OO Systems Limited in 2011, which were written-down to £nil carrying value at 31 December 2014. The impairments in both years have arisen as a result of the Group strategy, focusing on higher margin revenue streams driven from Ubisense-owned IP and exiting from specific lower margin business areas.

The impairment of capitalised development costs in both 2015 and 2014 writes-off expenditure on products that will not be launched to the market.

In assessing whether intangible assets have been impaired, the carrying amount of the cash-generating unit (CGU) is compared with the recoverable amount of the CGU. The Board consider the CGUs to reflect the two operating segments (RTLS – Smart Factory; Geospatial – myWorld).

All goodwill relates to the Geospatial CGU. In the event of a shortfall in estimated revenues of 10% a further goodwill impairment of £506,000 would be required. In the event of a 20% shortfall the further goodwill impairment would be £1,012,000.

The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of readily available information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use for the purposes of performing an impairment test of goodwill, unless this would lead to an impairment loss. If goodwill would be impaired using value in use as the recoverable amount, a fair value less costs to sell assessment would be performed as this may lead to a higher recoverable amount. The Group calculates the value in use using a discounted cash flow model, based on the most recent financial budgets approved by the Board. The future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The discount rate is derived from the Group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks. A discount rate of 11.5% has been used for impairment calculations performed in 2015 (2014: 11.5%) for each of the CGUs. The recoverable amounts of all CGUs have been determined from value-in-use calculations based on three-five year forecasts projected from the 2016 budget approved by the Board for each CGU with an assumed terminal growth rate of nil (2014: nil) and no improvement in relative operating margin after the forecast period. The Board has considered reasonable possible sensitivities in key assumptions, particularly revenue, on which the value-in-use calculations are based.

There was no further impairment of intangible assets as the estimated recoverable amount exceeded the carrying value for all CGUs.

## 13 Property, plant and equipment

| | Fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2014 | 689 | 607 | 1,296 |
| Effect of movements in exchange rates | (23) | (26) | (49) |
| Additions | 556 | 402 | 958 |
| Disposals | (331) | (96) | (427) |
| At 31 December 2014 | 891 | 887 | 1,778 |
| Effect of movements in exchange rates | 58 | (71) | (13) |
| Transfers | (194) | 194 | – |
| Additions | 78 | 118 | 196 |
| Disposals | (35) | (11) | (46) |
| Disposal of subsidiary | (12) | – | (12) |
| **At 31 December 2015** | **786** | **1,117** | **1,903** |

# Notes to the consolidated financial statements continued

## 13 Property, plant and equipment continued

| | Fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|
| **Accumulated depreciation** | | | |
| At 1 January 2014 | (255) | (413) | (668) |
| Effect of movements in exchange rates | 17 | 13 | 30 |
| Charge for the year | (139) | (220) | (359) |
| Disposals | 239 | 92 | 331 |
| At 31 December 2014 | (138) | (528) | (666) |
| Effect of movements in exchange rates | (1) | 43 | 42 |
| Transfers | 181 | (181) | – |
| Charge for the year | (233) | (155) | (388) |
| Elimination on disposals | 35 | 10 | 45 |
| Disposal of subsidiary | 7 | – | 7 |
| **At 31 December 2015** | **(149)** | **(811)** | **(960)** |
| **Net book amount** | | | |
| **At 31 December 2015** | **638** | **305** | **943** |
| At 31 December 2014 | 753 | 359 | 1,112 |

## 14 Inventories

| | **2015 £'000** | 2014 Restated £'000 |
|---|---|---|
| Raw materials | **1,348** | 1,088 |
| Finished goods | **1,467** | 1,793 |
| Total inventories | **2,815** | 2,881 |

There are no impairment provisions against inventory included in the above amounts (2014: £nil). The Group's inventories are comprised of products which are not generally subject to rapid obsolescence on account of technological, deterioration in condition or market trends.

## 15 Trade and other receivables

| | Notes | **2015 £'000** | 2014 £'000 |
|---|---|---|---|
| Trade receivables, gross | | **7,421** | 8,961 |
| Allowances for doubtful debts | 15.1 | **(1,691)** | (68) |
| Trade receivables, net | 15.2 | **5,730** | 8,893 |
| Amounts recoverable on contracts | | **2,067** | 4,134 |
| Other receivables | | **199** | 211 |
| Prepayments | | **882** | 1,255 |
| Corporation tax recoverable | | **1** | 521 |
| VAT and taxation receivable | | **398** | 527 |
| Total trade and other receivables | | **9,277** | 15,541 |

All amounts disclosed are short term. The carrying value of trade receivables is considered a reasonable approximation of fair value.

The following disclosures are in respect of trade receivables and are either impaired or past due. The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic situations, and are assessed on a customer-by-customer basis following detailed review of the particular circumstances. To the extent they have not been specifically provided against, the trade receivables are considered to be of sound credit rating.

### 15.1 Movement in allowance for doubtful debts

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| At 1 January | **(68)** | (141) |
| Exchange differences | **(10)** | – |
| Amounts recovered in the year | **–** | 33 |
| Amounts written-off in the year | **43** | 41 |
| Allowance made | **(1,656)** | (1) |
| At 31 December | **(1,691)** | (68) |

Allowance made in 2015 includes £1,626,000 for two entities in the Asia Pacific region. Provision has been made against these balances as their recoverability is uncertain following the disposals and cost reduction actions in that region.

### 15.2 Ageing of past due but not impaired receivables

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Neither past due nor impaired | **3,506** | 5,492 |
| Past due but not impaired: | | |
| 0 to 90 days overdue | **920** | 2,494 |
| More than 90 days overdue | **1,304** | 907 |
| Total | **5,730** | 8,893 |

## 16 Cash and cash equivalents

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Cash at bank and in hand | **5,392** | 3,697 |
| **Cash and cash equivalents** | **5,392** | 3,697 |

The carrying amount approximates to fair value because of the short-term maturity of these instruments, being no greater than three months.

Cash at bank earns interest at floating rates based on daily bank overnight deposit rates. Short-term cash deposits earn interest at fixed rates for the term of the deposit.

The composition of cash and cash equivalents by currency is as follows:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| British Pound (GBP) | **1,718** | 904 |
| Euro (EUR) | **1,151** | 1,361 |
| US Dollar (USD) | **2,216** | 1,169 |
| Japanese Yen (JPY) | **130** | 122 |
| South Korean Won (KRW) | **–** | 36 |
| Canadian Dollar (CAD) | **177** | 103 |
| Philippine Peso (PHP) | **–** | 2 |
| **Cash and cash equivalents** | **5,392** | 3,697 |

# Notes to the consolidated financial statements continued

## 17 Trade and other payables

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Payments received on account | **2,017** | 2,137 |
| Trade payables | **2,148** | 4,021 |
| Trade accruals | **3,668** | 2,020 |
| Current tax liability | **–** | 51 |
| Other taxation and social security | **661** | 822 |
| Other payables | **135** | 765 |
| **Total trade and other payables** | **8,629** | 9,816 |

All amounts disclosed are short term. The carrying value of trade payables is considered a reasonable approximation of fair value.

## 18 Bank loans

In May 2015, the Group renewed its working capital loan facilities and repaid its £2.0 million acquisition bank loan. The Group has an £8.0 million bank loan facility agreed with HSBC Bank Plc to provide working capital for the Group. This loan is repayable in full in June 2018 by Ubisense Ltd, is secured on the fixed and floating assets of the Group and attracts an interest charge of LIBOR + 3%. As at 31 December 2015, £4.5 million of the £8.0 million facility is drawn-down and is subject to certain operating and net worth covenants of the business, being:

- total senior debt (net of cash balances) not exceeding 2x adjusted EBITDA;
- interest charges and repayments of principal due in the next 12 months in respect of borrowings whose original stated term to maturity exceed 12 months not exceeding 3x adjusted EBITDA; and
- total senior debt (net of cash balances) not exceeding 2.5x the aggregate of trade debtors (net of provisions) and work-in-progress (amounts recoverable on contracts).

The Group notified HSBC of a breach of the covenants relating to adjusted EBITDA as at 31 December 2015 and as at 31 March 2016, against which HSBC provided Reservation of Rights letters indicating that they do not intend to take further action.

With a covenant test based on a rolling 12-month adjusted EBITDA calculation, the Group anticipates further covenant breaches in the next 12 months until the full effect of the restructuring actions taken in 2015 are delivered and the disappointing results of 2015 no longer have an impact on the calculation. The Group is engaged in constructive discussions with HSBC on a replacement of this facility.

At 31 December 2014, the Group had the following bank loans with HSBC Bank Plc in place, which were repaid in full in May 2015 by Ubisense Limited:

- A three-year bank loan facility of up to £5.0 million, repayable in full in August 2016. Interest was payable at LIBOR plus 3%. The facility was secured on the fixed and floating assets of the Group and was subject to certain operating performance and net worth covenants of the business. As at 31 December 2014, £4.0 million was drawn.
- A four-year bank loan facility of £2.0 million, repayable in quarterly instalments. Interest was payable at Bank of England base rate plus 3%. The facility was secured on the fixed and floating assets of the Group and was subject to certain operating and net worth covenants of the business. As at 31 December 2014, £2.0 million was outstanding.

The Group renewed a six-month loan facility of 200 million Japanese Yen (JPY) in June 2015 and which was further extended until 31 March 2016 at which point it was repaid. The loan was unsecured and interest was payable at 0.99%. As at 31 December 2015, the JPY 200 million facility was drawn-down in full (31 December 2014: JPY 170 million of JPY 200 million facility drawn).

## 19 Other payables

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| Contingent consideration | 19.2 | **448** | 414 |
| Property provisions | | **179** | 179 |
| Rent deposit repayable | | **24** | 11 |
| Total other payables | | **651** | 604 |

In September 2014, Ubisense Limited entered a new ten-year lease on the Group's headquarter offices. The property provision is a dilapidation provision to restore the office to its original state. It is included in fixtures and fittings within property, plant and equipment and is being depreciated over the lease term.

### 19.2 Contingent consideration

Ubisense Group Plc acquired the Ubisense Inc (formerly named Geoplan Interworks K.K.) group of companies (Geoplan) in December 2013.

The purchase consideration contained a contingent cash element, under which the Group is required to pay additional amounts to the vendors of Geoplan based on the achievement of two separate performance milestones that may arise between 2014 and 2017 with a combined undiscounted range of outcomes between JPY nil and JPY 149 million (£nil to £892,000).

At acquisition, the fair value of the contingent consideration was JPY 136 million (£816,000) being management's best estimate of the probability-adjusted estimated discounted future cash flows. The discount rate used is 3.5%, based on the Group's estimated incremental borrowing rate for unsecured liabilities at the reporting date, and therefore reflects the Group's credit position. The fair value amount recognised for this arrangement is revised based on the most recent management estimates and, as the liability is denominated in JPY, it is subject to the impact of exchange rates.

| | At 1 January 2015 £'000 | Effect of exchange rates £'000 | Unwinding of discount £'000 | **At 31 December 2015 £'000** |
|---|---|---|---|---|
| Contingent consideration – non-current | 414 | 19 | 15 | **448** |
| **Total** | 414 | 19 | 15 | **448** |

## 20 Share capital and premium

| | Number of ordinary shares of £0.02 each | Share capital £'000 | Share premium £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 1 January 2014 | 23,079,146 | 461 | 24,050 | 24,511 |
| Issued under share-based payment plans | 54,107 | 1 | 23 | 24 |
| Issued on placing to institutional shareholders | 1,929,589 | 39 | 3,978 | 4,017 |
| Change in year | 1,983,696 | 40 | 4,001 | 4,041 |
| Balance at 31 December 2014 | 25,062,842 | 501 | 28,051 | 28,552 |
| Issued under share-based payment plans | 446,293 | 9 | 67 | 76 |
| Issued on placing to institutional shareholders | 11,111,112 | 222 | 9,304 | 9,526 |
| Change in year | 11,557,405 | 231 | 9,371 | 9,602 |
| **Balance at 31 December 2015** | **36,620,247** | **732** | **37,422** | **38,154** |

The Company has one class of ordinary shares which carry no right to fixed income.

During the period, the Company issued 11,557,405 shares, increasing the total number of shares in issue from 25,062,842 to 36,620,247 as follows:

- 11,111,112 shares at 0.90 pence per share for a total gross consideration of £10.0 million with share issue costs of £474,000 written-off against the share premium account.; and
- 446,293 shares as a result of options exercised with a weighted average exercise price of 0.17 pence per share for total cash consideration of £76,131.

# Notes to the consolidated financial statements continued

## 21 Share-based payments: options

### 21.1 Equity-settled share-based payment arrangements

The Group operates a number of plans to award options over shares in the Company to incentivise high performing key employees of the Group periodically.

Options are generally granted at an exercise price equal to the market price of the shares under option at the date of the grant. The options generally vest evenly over three years on the anniversary from the date of the grant or entirely on the third anniversary from the date of grant, depending on continuing service during the vesting period. The contractual life of the options is 10 years from the date of grant after which they expire if unexercised.

### 21.2 Analysis of amounts recognised in the financial statements

a) Analysis of amounts recognised in the consolidated income statement

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Total share-based payments charge recognised in operating profit | **54** | 75 |

b) Analysis of amounts recognised in the consolidated statement of changes in equity in the year

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Net share-based payments credit recognised in equity | **54** | 75 |

c) Cumulative amounts included within equity in the consolidated statement of financial position

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Cumulative reserve credit for share-based payments | **875** | 821 |

### 21.3 Reconciliation of movements in equity-settled share-based payment arrangements in the year

| Arrangement | Award date Year | Vests Years | Expires Year | Exercise price £ | Awards outstanding at 1 January 2015 Number | Granted during the year Number | Exercised during the year Number | Forfeited during the year Number | **Awards outstanding at 31 December 2015 Number** | Awards exercisable at 31 December 2015 Number |
|---|---|---|---|---|---|---|---|---|---|---|
| Options | 2007 | 2008–10 | 2017 | 0.900 | 300 | – | – | – | **300** | 300 |
| | 2008 | 2009–11 | 2018 | 0.900 | 650 | – | – | (650) | **–** | – |
| | 2009 | 2010–12 | 2019 | 0.900 | 3,750 | – | – | (3,750) | **–** | – |
| | 2010 | 2011–13 | 2020 | 0.140 | 847,454 | – | (431,293) | (7,700) | **408,461** | 408,461 |
| | 2011 | 2012–14 | 2021 | 1.050 | 386,117 | – | (15,000) | (72,917) | **298,200** | 298,200 |
| | 2012 | 2013–15 | 2022 | 2.125 | 316,000 | – | – | (114,500) | **201,500** | 141,500 |
| | 2013 | 2014–16 | 2023 | 2.055 | 351,500 | – | – | (82,200) | **269,300** | 112,867 |
| | 2014 | 2015–17 | 2024 | 2.250 | 437,500 | – | – | (137,500) | **300,000** | 35,000 |
| **Total** | | | | | 2,343,271 | – | (446,293) | (419,217) | **1,477,761** | 996,328 |
| Weighted average exercise price (£) | | | | | 1.240 | – | 0.170 | 1.916 | **1.371** | 0.760 |

No share options were granted in 2015. In May 2014, 447,500 share options were granted to employees with an exercise price of £2.25 per share, being the market value at the date of exercise. The weighted average share price at the date of exercise for options exercised during the year was £0.754 (2014: £1.921).

### 21.4 Principal assumptions

The fair value of share-based payments grants has been valued using the Black-Scholes option-pricing model. Expected volatility was determined based on the historic volatility of comparable companies. 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 rate of 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 or warrant.

The following assumptions were used in the model for options granted during the year ended 31 December 2014. No options were granted in the year ended 31 December 2015.

| Instrument | Option |
|---|---|
| Number granted | 447,500 |
| Grant date | 23 May 2014 |
| Share price at grant date (£) | 2.250 |
| Exercise price (£) | 2.250 |
| Fair value per option (£) | 0.60 |
| Expected life (years) | 3.0 |
| Expected volatility (%) | 34 |
| Risk-free interest rate (%) | 1.83 |
| Expected dividends expressed as a dividend yield (%) | – |

## 22 Operating lease commitments

### Leases as lessee

At 31 December 2015, the Group has lease agreements in respect of property and equipment for which payments extend over a number of years. The Group enters into these arrangements as these are a cost-efficient way of obtaining the short-term benefits of these assets. The Group lease rental charge is disclosed in note 9.1. There are no other material off-balance sheet arrangements.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Land and buildings | | Other | |
|---|---|---|---|---|
| Lease ending | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| No later than one year | **606** | 785 | **59** | 121 |
| Later than one year and no later than five years | **2,320** | 2,441 | **113** | 85 |
| Later than five years | **1,282** | 3,043 | **–** | – |
| **Total** | **4,208** | 6,269 | **172** | 206 |

The above table reflects the committed cash payments under operating leases, rather than the expected charge to the income statement in the relevant periods. The effect on the income statement will differ to the above figures due to the amortisation of rent-free and discounted rent periods included in property leases signed in 2012 and 2014. The expected charge in 2016 for operating leases is expected to be £105,000 higher than the committed cash payments shown above. From existing subleasing agreements under non-cancellable operating leases which end in less than one year, the Group will receive income of £31,000.

The Group has guaranteed rent bonds issued by its banks on its behalf totalling £122,000 as at 31 December 2015 (2014: £134,000). These are not expected to result in any material financial loss.

# Notes to the consolidated financial statements continued

## 23 Subsidiaries

The Group consists of the Parent Company, Ubisense Group Plc, incorporated in the UK, and a number of subsidiary companies which operate and are incorporated around the world. Information about the composition at the end of the reporting period is as follows:

| Subsidiary | Country of incorporation | Principal activity | Proportion of ordinary shares held by Group (%) | Proportion of ordinary shares held by non-controlling interests (%) |
|---|---|---|---|---|
| Ubisense Limited | UK | Location solutions | 100 | – |
| Ubisense GmbH | Germany | Location solutions | 100 | – |
| Ubisense SAS | France | Location solutions | 100 | – |
| Ubisense Inc. | US | Location solutions | 100 | – |
| Ubisense Solutions Inc. | Canada | Location solutions | 100 | – |
| Geospatial Systems Limited | UK | Location solutions | 100 | – |
| Ubisense Inc. | Japan | Intermediate holding company | 100 | – |
| Geoplan Company Limited* | Japan | Location solutions | 77 | 23 |
| Binary Star Developments K.K.* | Japan | Non-trading | 100 | – |

All subsidiaries are directly held by Ubisense Group Plc except those denoted* which are held by the intermediate holding company, Ubisense Inc.

All subsidiaries prepare local statutory accounts up to 31 December each year except for Geospatial Systems Limited which prepares accounts up to 31 March and Binary Star Developments K.K. to 31 January. For subsidiaries which have a different financial year end to the Group, additional co-terminus accounts are prepared reflecting the same financial reporting as the Group for the purposes of consolidation.

During the year, the Group disposed of its 100% interest in Ubisense Company Ltd, a company incorporated in South Korea and Geoplan Philippines Inc, a company incorporated in the Philippines. The proceeds on sale of USD 1,000 for each entity were received in cash. No investment has been retained in either entity.

Neither subsidiary company was material to the financial performance or position of the Ubisense Group therefore no amounts have been classified as discontinued operations. The loss on disposal of the subsidiary companies is disclosed in note 24.

## 24 Disposal of subsidiaries

As referred to in note 23, the Group disposed of two subsidiary companies during the year.

On 18 May 2015, Ubisense Inc. disposed of its 100% equity interest in its subsidiary, Geoplan Philippines Inc. for consideration of USD 1,000. The net assets of Geoplan Philippines Inc. at the date of disposal were as follows:

| | Total £'000 |
|---|---|
| Property, plant and equipment | 2 |
| Trade and other receivables | 145 |
| Cash and cash equivalents | 4 |
| Trade and other payables | (165) |
| | (14) |
| Gain on disposal | 15 |
| Total consideration | 1 |
| Satisfied by: | |
| Cash and cash equivalents | 1 |
| Net cash outflow arising on disposal | |
| Consideration received in cash and cash equivalents | 1 |
| Less: cash and cash equivalents disposed of | (4) |
| | (3) |

In the current year, Geoplan Philippines Inc. contributed £nil to the Group's adjusted EBITDA (2014: loss of £41,000). Costs associated with the disposal of £112,000 have been included in non-recurring items.

On 30 September 2015, Ubisense Inc. disposed of its 100% equity interest in its subsidiary, Ubisense Company Ltd, for consideration of USD 1,000. The net assets of Ubisense Company Ltd at the date of disposal were as follows:

| | Total £'000 |
|---|---|
| Property, plant and equipment | 3 |
| Inventories | 913 |
| Trade and other receivables | 4 |
| Trade and other payables | (923) |
| | (3) |
| Profit on disposal | 4 |
| Total consideration | 1 |
| Satisfied by: | |
| Cash and cash equivalents | 1 |
| Net cash outflow arising on disposal | |
| Consideration received in cash and cash equivalents | 1 |
| Less: cash and cash equivalents disposed of | – |
| | 1 |

In the current year, Ubisense Company Ltd contributed a loss of £84,000 to the Group's adjusted EBITDA (2014: loss of £272,000). Costs associated with the disposal of £644,000 have been included in non-recurring items.

The disposals of both subsidiaries are not considered discontinued operations as the subsidiary disposals have not exited a major line of business or geographic area for the Group.

## 25 Related-party transactions

Compensation of key management personnel disclosed in note 6.3 and full details of Directors' remuneration are given in note 7.

During the year, Ubisense Company Ltd contemplated entering into a commercial sub-lease arrangement with a third party. One of the Directors of Ubisense Group Plc, is also a Director of that third party. The arrangement was not completed although as an outcome the third party paid Ubisense £3,800 plus VAT (2014: £nil). As at 31 December 2015, Ubisense Company Ltd showed that £4,560 was owed by the third party (31 December 2014: £nil). Full payment of this balance outstanding was subsequently received in 2016.

There were no other related-party transactions with Directors of the Company.

## 26 Financial risk management

### 26.1 Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised below. The main types of risks are market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short- to medium-term cash flows. The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

### 26.2 Foreign currency risk management

The Group operates globally and undertakes certain transactions denominated in foreign currencies, predominantly in US dollars (USD), Euros (EUR) and Japanese Yen (JPY), exposing the Group to foreign currency risk. The Group's risk management policy is to maintain natural hedges where possible, by matching foreign currency revenue and expenditure. The Group does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk as the Group's currency transactions are not considered significant enough to warrant this.

# Notes to the consolidated financial statements continued

## 26 Financial risk management continued

### 26.2 Foreign currency risk management continued

Foreign currency denominated monetary assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those not denominated in the local functional currency, translated into GBP at the closing rate.

| | Japanese Yen | | US Dollars | | Euros | |
|---|---|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| Assets | **–** | – | **145** | 2,240 | **535** | 886 |
| Liabilities | **–** | – | **(62)** | (199) | **(1)** | – |

All foreign currency financial assets and liabilities are classified as current.

### 26.3 Foreign currency sensitivity analysis

The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and financial liabilities and the USD/GBP, EUR/GBP and JPY/GBP exchange rates "all other things being equal". It assumes a +/– 5% change in the GBP exchange rate against the relevant foreign currencies. The percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. A positive number indicates an increase in profit and equity.

| | Japanese Yen | | US Dollars | | Euros | |
|---|---|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| **Effect of a 5% strengthening in relevant exchange rate on:** | | | | | | |
| Income statement | **(43)** | (5) | **(27)** | 182 | **(95)** | 221 |
| Equity | **(43)** | (5) | **(27)** | 182 | **(95)** | 221 |
| **Effect of a 5% weakening in relevant exchange rate on:** | | | | | | |
| Income statement | **50** | 5 | **32** | (201) | **110** | (244) |
| Equity | **50** | 5 | **32** | (201) | **110** | (244) |

Exposure to foreign currency exchange rates vary during the year, depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

### 26.4 Interest rate sensitivity

The Group's exposure to interest rate risk relates primarily to the Group's variable rate bank loan facilities of £8.0 million which is partially offset by cash held at variable rates. Interest is payable at LIBOR plus 3% on the £8.0 million facility and £4.5 million was outstanding at 31 December 2015 (2014: £4.0 million). Other bank loans are at a fixed interest rate of 0.99%.

The following table illustrates the sensitivity of the net profit of the Group for the year and equity to a reasonably possible change in interest rates of +/–0.5%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the interest rate with effect from the beginning of the year and the financial instruments held at the reporting date that are sensitive to interest rate changes. All other variables are held constant. A positive number indicates an increase in profit or equity.

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Effect of a 0.5% decrease in interest rate on:** | | |
| Income statement | **30** | 23 |
| Equity | **30** | 23 |
| **Effect of a 0.5% increase in interest rate on:** | | |
| Income statement | **(30)** | (23) |
| Equity | **(30)** | (23) |

### 26.5 Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge a contractual obligation resulting in financial loss to the Group. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised in note 26.8, which are principally cash and cash equivalents and trade receivables.

Cash and cash equivalents are held at banks with good independent credit ratings in accordance with the Group Treasury policy. The Group continuously monitors defaults of customers and other counterparties, identified either individually or by the Group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that its financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. All receivables are subject to regular review to ensure that they are recoverable and any issues identified as early as possible. In order to manage credit risk the Directors set limits for customers based on a combination of payment history and third-party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history. In addition many of the Group's customers, and approximately 80% by balance at any given time, are large utility companies and other blue-chip companies that would be considered a low credit risk.

The amount of exposure to any single counterparty or a group of counterparties having similar characteristics is subject to a limit, which is reassessed periodically by management. At 31 December 2015, one customer individually accounted for more than 10% of the trade receivables balance (31 December 2014: none).

None of the Group's financial assets are secured by collateral or other credit enhancements.

Details of certain trade receivables at 31 December 2015 that have not been settled by the contractual due date but are not considered to be impaired are included in note 15.2.

### 26.6 Liquidity risk analysis

Liquidity risk is the risk arising from the Group not being able to meet its obligations as they fall due. The Group seeks to manage this risk by monitoring scheduled debt-servicing payments for long-term financial liabilities, regularly reviewing forecast inflows and outflows due in day-to-day business and investing cash assets safely and profitably. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below.

Cash flow forecasting is performed at the subsidiary level and aggregated by Group finance. Rolling cash flow forecasts are used by the Group to monitor liquidity requirements to ensure it has sufficient cash to meet operational needs, as well as maintaining sufficient headroom so that loan covenants are not breached. The Group policy throughout the year has been to remit surplus working capital balances at the subsidiary level to Group treasury and place on short-term deposit or interest-bearing reserve accounts and to draw-down on borrowing facilities and distribute funds locally when required. As disclosed in note 18, the Group has total bank loan facilities of £9.1 million, of which £5.6 million was drawn-down at 31 December 2015 (2014: £8.1 million facility, £6.9 million drawn-down).

The Group considers expected cash flows from financial assets, predominately cash and trade receivables, in assessing and managing liquidity risk. The Group's cash and trade receivable resources at 31 December 2015 (see note 15) exceed the current cash outflow requirements.

# Notes to the consolidated financial statements continued

## 26 Financial risk management continued

### 26.6 Liquidity risk analysis continued

As at 31 December 2015, the Group's financial liabilities, including interest payments where applicable, have contractual maturities as summarised below:

| | Current | | Non-current | |
|---|---|---|---|---|
| | Within 6 months £'000 | Between 6 and 12 months £'000 | Between 1 and 5 years £'000 | Later than 5 years £'000 |
| **As at 31 December 2015** | | | | |
| Trade and other payables | **7,924** | **705** | **203** | **–** |
| Bank loan | **1,123** | **–** | **4,500** | **–** |
| Other payables | **–** | **–** | **472** | **179** |
| **As at 31 December 2014** | | | | |
| Trade and other payables | 9,465 | 351 | 120 | – |
| Bank loans | 927 | – | 6,000 | – |
| Other payables | – | – | 425 | 179 |

### Financial assets used for managing liquidity risk

Cash flows from trade and other receivables are contractually due within six months in the majority of cases. Extended credit terms have been agreed with specific customers. Cash is generally held in accounts with immediate notice. Where surplus cash deposits are identified these are placed in accounts with access terms of no more than three months.

### 26.7 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns whilst maximising the return to stakeholders and to maintain an optimal capital structure to reduce the long-term cost of capital. The capital structure of the Group consists of cash and cash equivalents and capital and reserves attributable to the owners of the Company, and the Group's borrowing facilities.

In order to maintain or adjust the capital structure, the Group may issue shares, take on debt, sell assets to raise cash, adjust the amount of dividends payable to shareholders or return capital to shareholders.

The capital structure is continually monitored by the Group. The Group's strategy is to have a capital structure that allows investment in long-term profitable growth, takes into account prevailing trading conditions and seeks to improve balance sheet efficiency over time. The Group is not subject to externally imposed capital requirements.

The Group has bank facilities at 31 December 2015 of £9.1 million (31 December 2014: £8.1 million) of which £8.0 million denominated in GBP and £1.1 million denominated in JPY (2014: £7.0 million GBP, £1.1 million JPY). At 31 December 2015 £5.6 million of the facilities were drawn (31 December 2014: £6.9 million) of which £4.5 million is denominated in GBP and £1.1 million denominated in JPY (2014: £6.0 million GBP, £0.9 million JPY). The Group may need to seek further capital, through equity or debt, in order to support the business. Currently, the Group has considered its funding options and expects to announce a conditional share placing in order to strengthen the balance sheet, reduce the loan outstanding and permit selective investment in the business.

### 26.8 Categories of financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument, are disclosed in the accounting policies in note 3. The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial instrument:

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Loans and receivables: | | | |
| – Trade receivables | 15 | **5,730** | 8,893 |
| – Amounts recoverable on contracts | 15 | **2,067** | 4,134 |
| – Other receivables | 15 | **1,480** | 2,514 |
| – Cash and cash equivalents | 16 | **5,392** | 3,697 |
| Total financial assets | | **14,669** | 19,238 |
| **Financial liabilities** | | | |
| Amortised cost: | | | |
| – Trade payables | 17 | **2,148** | 4,021 |
| – Trade accruals | 17 | **3,668** | 2,020 |
| – Other payables | 17 | **2,813** | 3,775 |
| – Provisions | 19 | **203** | 190 |
| – Bank loans | 18 | **5,623** | 6,927 |
| Fair value: | | | |
| – Contingent consideration | 19.2 | **448** | 414 |
| Total financial liabilities | | **14,903** | 17,347 |

# Independent auditor's report
to the members of Ubisense Group Plc

We have audited the Parent Company financial statements of Ubisense Group Plc for the year ended 31 December 2015 which comprise the Company balance sheet, Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

## Respective responsibilities of Directors and auditor
As explained more fully in the Directors' responsibilities statement set out on page 31, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeprivate.

## Opinion on financial statements
In our opinion the Parent Company financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

## Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Other matter
We have reported separately on the Group financial statements of Ubisense Group Plc for the year ended 31 December 2015.

**Paul Naylor**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge

6 April 2016

# Company balance sheet
At 31 December 2015

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments in subsidiaries | 3 | **9,691** | 17,999 |
| **Current assets** | | | |
| Debtors | 4 | **7,056** | 10,113 |
| Cash at bank and in hand | | **10** | 19 |
| | | **7,066** | 10,132 |
| **Creditors – amounts falling due within one year** | 5 | **(1,849)** | (143) |
| **Net current assets** | | **5,217** | 9,989 |
| **Total assets less current liabilities** | | **14,908** | 27,988 |
| **Net assets** | | **14,908** | 27,988 |
| **Capital and reserves** | | | |
| Called-up share capital | 6 | **732** | 501 |
| Share premium account | 7 | **37,422** | 28,051 |
| Share-based payment reserve | 7 | **875** | 821 |
| Profit and loss reserve | 7 | **(24,121)** | (1,385) |
| **Equity shareholders' funds** | 8 | **14,908** | 27,988 |

The notes on pages 77 to 79 are an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 6 April 2016 and signed on its behalf by:

**Richard Green**
Chief Executive Officer
Ubisense Group Plc

Registered Number: 05589712

# Company statement of changes in equity

For the year ended 31 December 2015

| | Attributable to equity shareholders | | | | |
|---|---|---|---|---|---|
| | Share capital £'000 | Share premium £'000 | Share-based payment reserve £'000 | Retained earnings £'000 | **Total £'000** |
| **Balance at 1 January 2014** | 461 | 24,050 | 746 | (500) | **24,757** |
| Total comprehensive loss for the year | – | – | – | (885) | **(885)** |
| Reserve credit for equity-settled share-based payment | – | – | 75 | – | **75** |
| Issue of new share capital | 40 | – | – | – | **40** |
| Premium on new share capital | – | 4,230 | – | – | **4,230** |
| Share issue costs | – | (229) | – | – | **(229)** |
| **Transactions with owners** | 40 | 4,001 | 75 | – | **4,116** |
| **Balance at 31 December 2014** | 501 | 28,051 | 821 | (1,385) | **27,988** |
| Total comprehensive loss for the year | – | – | – | (22,736) | **(22,736)** |
| Reserve credit for equity-settled share-based payment | – | – | 54 | – | **54** |
| Issue of new share capital | 231 | – | – | – | **231** |
| Premium on new share capital | – | 9,845 | – | – | **9,845** |
| Share issue costs | – | (474) | – | – | **(474)** |
| **Transactions with owners** | 231 | 9,371 | 54 | – | **9,656** |
| **Balance at 31 December 2015** | **732** | **37,422** | **875** | **(24,121)** | **14,908** |

The notes on pages 77 to 79 are an integral part of the Company financial statements.

# Notes to the Company financial statements

## 1 Principal accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

This is the first year in which the financial statements have been prepared under FRS 102. An explanation of the transition is provided in note 9.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

The Company has taken advantage of the following exemptions allowed under FRS 102:

- Section 33 'Related-party disclosures' not to show transactions with other wholly-owned companies in the Group headed by Ubisense Group Plc.
- Section 7 statement of cash flows not to prepare a cash flow statement for the Parent Company.
- Section 11/12 financial instrument disclosures.

### Share-based payments

The Company issues equity-settled share-based payments to certain employees of its subsidiaries. Equity-settled share-based payments are measured at fair value at the date of grant using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The share-based payment is accounted for as a capital contribution to the subsidiaries. Investments in subsidiaries are increased by the aggregate amount of share-based payment with a corresponding increase in equity for the same amount.

### Investments in subsidiaries

Fixed asset investments are shown at cost less provision for impairment.

### Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## 2 Loss for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Ubisense Group Plc reported a loss for the financial year ended 31 December 2015 of £22,736,000 (2014: £885,000).

The Company does not have any employees (2014: nil). Directors' emoluments are disclosed in note 7 of the consolidated financial statements. The Directors were not remunerated by the Parent Company.

# Notes to the Company financial statements continued

## 3 Investments in subsidiaries

| | Investments in subsidiaries £'000 |
|---|---|
| **Cost and net book amount** | |
| At 1 January 2015 | 17,999 |
| Additions | 890 |
| Capital contribution relating to share-based payments | 54 |
| Impairment | (9,252) |
| **At 31 December 2015** | **9,691** |

### Additions

Additions in the year relate to compensation of Ubisense GmbH for losses under a Domination Agreement. The additions of £890,000 represents the compensation for the losses in the years ending 31 December 2012, 2013 and 2014 when the entity was Ubisense AG. There will be no similar compensation for losses in future.

### Capital contribution

The capital contributions relating to share-based payments arise because the Company has granted share options to the employees of its various subsidiaries.

### Impairment

At 31 December 2015, there were indicators of impairment of the investment in the subsidiaries asset. The carrying value of the investment, considered together with the net amounts owed by subsidiary undertakings, was compared to the recoverable amount and an impairment found to exist. As such, the investment has been written-down to a recoverable amount, being the discounted future cash flows generated from the investment. The discount rate used was 11.5%, this being derived from the weighted average cost of capital.

The impairment expense has been recognised in profit or loss for the year.

Further information about subsidiaries is provided in note 23 of the consolidated financial statements.

## 4 Debtors

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Amounts owed by subsidiary undertakings | **7,056** | 10,113 |
| | **7,056** | 10,113 |

The amounts owed by subsidiary undertakings have been impaired during the year by £12,615,000 (2014: £nil) to reduce their carrying value to a recoverable amount. The impairment expense has been recognised in profit or loss for the year.

£904,000 owed is due in more than 12 months.

## 5 Creditors: amounts falling due within one year

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Trade accruals | **54** | 143 |
| Amounts owed to subsidiary undertakings | **1,795** | – |
| | **1,849** | 143 |

## 6 Share capital

| | 2015 Number | 2014 Number | 2015 £'000 | 2014 £'000 |
|---|---|---|---|---|
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of £0.02 each | **36,620,247** | 25,062,842 | **732** | 501 |

A description of the movements in share capital in the year is given in note 20 of the consolidated financial statements.

## 7 Reserves

| | Share premium £'000 | Share-based payment reserve £'000 | Profit and loss reserve £'000 |
|---|---|---|---|
| Balance at 1 January 2015 | 28,051 | 821 | (1,385) |
| Loss for the year | – | – | (22,736) |
| Reserve credit for equity-settled share-based payment | – | 54 | – |
| Premium on new share capital | 9,845 | – | – |
| Share issue costs | (474) | – | – |
| Change in year | 9,371 | 54 | (22,736) |
| **Balance at 31 December 2015** | **37,422** | **875** | **(24,121)** |

## 8 Transition to FRS 102

The Company has adopted FRS 102 for the year ended 31 December 2015 and has recalculated the comparative amounts as if FRS 102 had always been applied. The shareholders' funds at the effective date of 1 January 2014 remain unchanged from previously published financial statements and no restatements are required.

# Advisers

### Registered Office
**Ubisense Group Plc**
St. Andrew's House
St. Andrew's Road
Chesterton
Cambridge
CB4 1DL
Tel: +44 (0)1223 535 170
Fax: +44 (0)1223 535 167
Website: www.ubisense.net

### Investor Relations
**Redleaf Communications**
1st Floor, 4 London Wall Buildings
Blomfield Street
London
EC2M 5NT

### Nominated Advisers and Brokers
**Numis Securities Limited**
The London Stock Exchange Building,
10 Paternoster Square,
London
EC4M 7LT

### Lawyers
**Mills & Reeve LLP**
Cambridge Office
Botanic House
98-100 Hills Road
Cambridge
CB2 1PH

### Auditor
**Grant Thornton UK LLP**
Cambridge Office
101 Cambridge Science Park
Milton Road
Cambridge
CB4 0FY

### Registrar
**Computershare Investor Services PLC**
The Pavilions, Bridgwater Road
Bristol
BS99 6ZZ

### Banker
**HSBC Bank plc**
Vitrum
St John's Innovation Park
Cowley Road
Cambridge
CB4 0WS

# Shareholder information

### Shareholder enquiries
Any shareholder with enquiries should, in the first instance, contact our Registrars, Computershare, using the address provided in the list of Advisers.

### Share price information
London Stock Exchange Alternative
Investment Market (AIM) symbol: UBI
Information on the Company's share price is available on the Ubisense Investor Relations website at:
www.ubisense.net/en/investor-relations/

### Investor relations
St. Andrew's House, St. Andrew's Road
Chesterton, Cambridge CB4 1DL, UK

Email: corporate@ubisense.net
Tel: + 44 (0) 1223 535 170

### Financial calendar
Financial year end 31 December 2015
Full year results announced 7 April 2016

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)121 262 3830

**Ubisense Group Plc**
St. Andrew's House
St. Andrew's Road
Chesterton
Cambridge
CB4 1DL

www.ubisense.net