Ubisense

Bringing the digital twin to life

Ubisense Group plc Annual Report 2017

Ubisense

BRINGING THE DIGITAL TWIN TO LIFE

The power of location data

We have one simple goal: to revolutionise the world's ability to locate, connect and manage industrial assets, making them more productive, flexible, profitable and safe. We are proud to be a trusted adviser to some of the biggest automotive, aerospace, telecoms and utility companies in the world, offering in-depth knowledge of the sectors in which we operate and the challenges that our customers face, at every level of the organisation.

Our solutions are based on powerful enterprise platforms, supported by a range of customer-led applications, that use location to enable our customers to deliver a real-time digital twin of their physical operations, proven to drive quality, increase productivity, manage complexity and reduce costs.

Ubisense has carved out a unique place for itself in the quest to enable the creation of digital twins across both sides of the business. A digital twin is a digital replica of a physical object or process, interpreting a wide range of technology to create a 'living' model that supports a production process during its lifecycle.

We have two enterprise products that enable the creation of digital twins.

RTLS SmartSpace

Delivering new levels of visibility and control, SmartSpace provides a foundation platform for manufacturers' Industry 4.0 strategy. Enabling customers to create a real-time digital twin of the production environment, Ubisense's technology connects activities in the real world to manufacturing execution and planning systems, making real-world processes involving moving assets visible and measurable.

Geospatial myWorld

myWorld transforms the ability of infrastructure companies to manage their geographically dispersed assets by creating a single architecture for geospatial-based applications. It enables customers to create a real-time digital twin of their physical operations that can be shared by thousands of field and office staff across all departments, connecting seamlessly to other critical enterprise systems.

STRATEGIC HIGHLIGHTS

- **2017:** Strong progress was demonstrated in terms of revenue growth of our own products, cost management and order book
- **Software focus:** New strategy is delivering significant wins across both sides of the business, with a 21% increase in software sales
- **Global growth:** Demand for Ubisense solutions has increased across new centres of manufacturing such as Turkey and Thailand
- **RTLS SmartSpace product development:** Modularised the enterprise software platform to address Industry 4.0 and emerging opportunities for Industrial Internet of Things ("IIoT") applications
- **Geospatial myWorld product development:** Extended the product portfolio to include an analytics suite that significantly reduces time to market for cable and telecoms network builds and upgrades

See our strategic focus on page 12

FINANCIAL HIGHLIGHTS

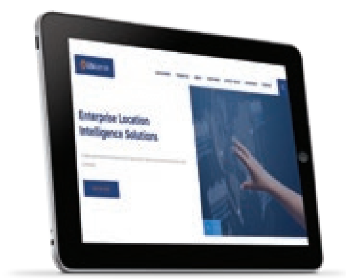
- Revenue generated from Ubisense's own products increased by 28% and now represents over 60% of revenue (2016: 49%)
- Total revenue increased to £27.3 million (2016: £26.5 million) while managing a 22% planned decline in services associated with third party products
- Operating loss reduced to £3.1 million (2016: £6.2 million) and adjusted EBITDA profits of £0.4 million (2016: £0.3 million)
- £5.5 million (gross) raised from shareholders in November 2017 to accelerate go-to-market and development activity
- Cash balance of £9.1 million (2016: £3.5 million) and net cash of £6.6 million (2016: £0.2 million)

See our KPIs on page 18

Strategic report

Corporate governance

Financial statements



For more information view our website:
www.ubisense.net

Driving value from our own products

We've refocused our sales effort and development towards the two enterprise location intelligence software platforms – Real-Time Location System (RTLS) SmartSpace and Geospatial myWorld.

28%

revenue growth in RTLS SmartSpace and Geospatial myWorld

Results overview

2017 results continued to demonstrate that Ubisense has excellent products which deliver measurable benefits for customers as they strive for productivity improvements. In total, Ubisense has delivered 28% revenue growth for the company's own products, RTLS SmartSpace and Geospatial myWorld, offsetting the planned decline in Geospatial revenues associated with third party products. We have continued to see growth in our own software revenues, which remains of key importance to us as we drive growth in new and recurring revenues.

The RTLS SmartSpace agreement with Lockheed Martin for the F35 program highlighted the productivity gains that industrial customers need to make, with integration of location information a key success-enabling factor. The strength of our technology alongside a flexible, highly scalable software platform that can integrate multiple location technologies were key factors in this aerospace win. A win in the satellite and space sector highlights the further opportunities that exist in high-tech manufacturing.

Our Geospatial myWorld customers are now exploiting the flexibility of the platform to create new use cases liberating geospatial information across their organisation, integrating with other platforms and driving productivity improvements. For Ubisense, this drives sales of additional licences, further services engagements and involvement in customers' longer term IT strategy.

Board of directors and Governance

At the end of 2016, we welcomed Richard Petti to the Board as the new Chief Executive Officer. I'm delighted that he has stepped into the role successfully, enabling me to resume my non-Executive Chairman role in August 2017. Richard has led the business, clarifying the positioning and strategy of the company's two product portfolios, focusing and training the sales force whilst we continue to build the sales capacity.

The structure of the Board and individual responsibilities remain unchanged from last year. We ensure that the Company adopts proper standards of corporate governance and that the principles of best practice as set out in the UK Corporate Governance Code are followed where reasonably practicable. The Board continually reviews its composition and that of its committees and feels that, at this stage of the Group's development, the skills and mix of its members best serves our current needs.

Group strategy

In October 2017 we led a successful £5.5 million fundraise with new and existing shareholders, to allow us to capitalise on our strategy and accelerate our go-to-market and development activity.

"In October 2017, we led a successful £5.5 million fundraise with new and existing shareholders, highlighting some of the customer productivity improvement opportunities based on Ubisense software platforms."

“Enabling our customers to create digital twins of their physical environments is helping companies worldwide to improve their profitability and meet the most stringent quality control requirements.”

Some of the customer productivity improvement opportunities based on Ubisense software platforms include:

RTLS SmartSpace: substantial investment in Industry 4.0 / Smart Factory / Industrial Internet of Things (IIoT) in industry with automation of non-linear processes using location information.

Geospatial myWorld: communications and utility operators spending billions of dollars upgrading their networks, needing to optimise the workflow across their organisation with accurate real-time geographically-based information.

For the Geospatial business, we will continue to leverage the highly specialist skills that we have in the team, focusing on increasing the volume of myWorld activity. In line with our strategy to reduce third party Geospatial consulting services, agreement was reached in March 2018 to dispose of that part of the Japanese business effective 30 March 2018.

To strengthen sales of our own products we have recruited strong new sales leadership in Japan and are making good progress on sales of myWorld and SmartSpace with our Japanese and Thai partners.

Corporate social responsibility

We are committed to corporate social responsibility that is tangible, practical and fits with the ethos of the business; this ensures that it is supported globally. During 2017 we continued our charity day program, allowing employees to take time off to support their charity of choice as well as organising local fundraising events. We continue to collaborate with local and national organisations to engage interns, industrial placements, apprenticeships and mentoring schemes, as well as being active members of local networks and clubs.

Current trading and outlook

The market opportunity for the Group is excellent for both divisions, with software-led strategies targeting productivity-enhancing opportunities in industry sectors that are growing and investing heavily in digitisation. By enabling our customers to create digital twins of their physical environments, we are helping companies worldwide to improve their profitability and meet the most stringent quality control requirements.

Trading in the first two months of 2018 has been in line with our expectations and we intend to build on our strengths through continued focus on developing and commercialising our software portfolio. We have improved the sales and go-to-market skills of the organisation and intend to further accelerate the momentum of sales of our own products through both divisions, which will ultimately drive improved gross margin and profitability.

We expect that the run-off of legacy third party services revenues will largely complete over the course of 2018, following which our results should better reflect the growth we are targeting in our own products, and as the proportion of third party services revenue in our mix declines, our gross margin will also naturally increase.

The growing success of our products, our stronger pipeline and discussions with customers lead us to be very excited about the prospects for our myWorld and RTLS SmartSpace products.

Our success is thanks to our people; we have a great team who have not only made this growth possible but are well positioned to take the business forwards.

I would like to thank our shareholders - old and new - for their continued support and our employees for their commitment in delivering success across both divisions.

Peter Harverson
Chairman
14 March 2018

Bringing the digital twin to life

We have made good progress in realigning our business around our two core products.

Market opportunity

Ubisense excels at helping customers to convert their physical worlds into a living, breathing digital twin of their core operational assets, products and processes. In fact, Lockheed Martin, a giant in the aerospace industry, recently listed digital twins as the number one technology trend of 2018. This is why in 2017 we have sold more of our own products to more customers.

Looking at the trends in our main markets of automotive, aerospace, telecoms and utilities we see some common challenges such as increased competition from globalisation, more demanding technical savvy customers and ageing workforces with skill gaps.

However, as we look more closely within our target segments we also see some very positive indicators including automotive manufacturing output at an all-time high of 93.5m units[1], aircraft order backlogs at an all-time high of 8-10 years[2] and global rollout plans for millions of homes worldwide to be connected to fibre broadband services in the next few years.

These long term trends are creating tremendous opportunities for us. This is why Lockheed Martin has trusted Ubisense with its mission critical function of controlling all shop floor tool operations for its high profile F-35 fighter program. This is also why Daimler has standardised every plant worldwide to work with our SmartSpace software to deliver their global vision of a "paperless factory". And this is why one of the largest North American utilities business has employees using our myWorld solution every day.

Our solutions are chosen because they combine industry-leading technology that includes: indoor and outdoor geolocation, wirelessly enabled machine-to-machine and machine-to-device communication, advanced analytics and big data middleware.

Underlying strategic focus

Our progress in 2017 can most easily be measured by observing the percentage of revenue our own products generate. For 2017 I am proud to report that not only did we break the 50% barrier but that we exceeded 60%. This important shift in our revenue mix has been achieved by focusing on a three-point strategy:

1. Refocusing the business:

Since 2016 we have been growing our focus on own-product sales into four main verticals: automotive, aerospace, telecoms and utilities. In doing so we are actively managing out our legacy third-party Geospatial service business which has now been reduced by 22% year on year. This has allowed greater management focus on building a stronger business that is based on our own products. Our goal is to become a market standard in each of our chosen verticals, we are focusing on the top global quartile of our selected market, which means concentrating our efforts on a group of approximately 200 global companies worldwide.

Focusing ensures that we develop a deeper understanding of our chosen markets. In 2017 we seeded our product roadmaps with extensive customer research which has helped us understand new areas where existing and prospective customers are facing specific problems. This market research has led to the launch of important new products in both product lines and increased pipeline generation. By increasing our focus on specific verticals we have been able to offer existing customers new product roadmaps that align with their challenges, and give new customers reasons to adopt Ubisense technology.

2. Improved sales execution:

Within our own organisation we have strengthened our go-to-market capabilities by recruiting market leading sales, pre-sales and marketing talent over 2017 and we have invested in training to help our organisation successfully complete complex multi-stakeholder buying processes.

As a result of this we have seen a significant shift in the shape of our pipeline, and across both business lines we have seen increases in the number of opportunities in the £250K–£1m band by an average of 115% and the £1M+ band by 25%. We have also increased our presence in new markets such as Thailand and Turkey by signing new distribution agreements with carefully selected partners that have both sales and delivery capabilities into our strategic markets of automotive, aerospace, telecoms and utilities.

3. Repositioning the product portfolio:

Thanks to our renewed engagement with our chosen markets we have invested in the development of our two enterprise class software solutions: SmartSpace and myWorld. Both product sets have been elevated from a positioning perspective so that our ability to solve enterprise level problems are more clearly communicated to our target markets. This elevation takes the form of positioning our products in the context of enterprise systems already in place (in manufacturing, for example, this is referred to as the 'manufacturing enterprise systems stack') and targeting our messaging directly at specific job roles.

In addition to elevating the two products, we have invested in modularising them, separating functionality into applications which can be packaged to address customer specific needs. This approach allows us to position both products along the value chains of our target market and illustrates how our products can improve core operations at each node in the value chain of their added-value operations. By positioning our product along the value chain we have been able to offer specific solutions to the challenges in particular areas, thereby eliminating the need to purchase enterprise licenses to solve discrete problems and preserving more value for future sales.

"Real progress towards our goal of revolutionising the world's ability to locate, connect and manage industrial assets."

Financial results

The repositioning work has allowed us to increase the percentage of software across the board and in a typical transaction software will be the dominant source of revenue and margin. This ability to drive software sales underpins our goal of increasing margin and recurring revenue by way of maintenance and support services.

With respect to financial performance, we were able to grow our top line to £27.3 million, more than overcoming the decline in our legacy third party service revenues. This top line growth is thanks to the increased sales of our own products, which grew at an impressive rate of 28%. Our margins made some positive progress which will improve further as the momentum builds from the sales of our own products.

Above all, the Ubisense team continues to work hard to deliver improved returns for your investment.

Richard Petti
Chief Executive Officer
14 March 2018

1 https://thefly.com/landingPageNews.php?id=2508077&headline=GM;NSANY;F;VLKAY;TM;DDAIF;FCAU;HMC-IHS-Markit-Global-auto-sales-set-to-reach-M-in-

2 https://centreforaviation.com/insights/analysis/record-global-aircraft-deliveries-in-2017-boeing-ahead-of-airbus-again-but-behind-on-order-backlog-393914

Our location-based solutions create digital twins of the physical world

Ubisense products integrate location into the daily operations of businesses across the world. From tracking vehicles as they move through a production process to providing live geospatial data to field technicians for cable and utility companies, we are experts in turning location data into business value.

Our vision

To enable our customers to create digital twins of their physical worlds that deliver visibility and control to increase productivity, flexibility, profitability and improve quality.

Ubisense works in partnership with global businesses across the automotive, aerospace, telecoms and utility sectors. Our products are structured to meet the specific needs of each industry – from giving telecoms companies greater visibility to helping automotive manufacturers reduce errors and increase throughput.

Why customers choose us

- World-class technology with a proven track record of reducing costs and increasing efficiencies across operations
- Trusted advisors offering deep understanding of our customers' businesses
- Strong customer references with compelling Return on Investments
- Demonstrated ability to improve customer satisfaction

Our partners

Ubisense collaborates with a network of highly skilled partners around the globe. Together we're able to tackle real-world problems that span disciplines and traditional silos.

Google | Atlas Copco | NEC NECネッツエスアイ | CGI

Where we operate

Ubisense has offices in North America, Europe and Asia and serves more than 250 customers across 20 countries across the world.

See our markets on page 10

9

of the top 10 global automobile manufacturers around the world use our solutions

6

of the top 10 Fortune 500 manufacturers are Ubisense customers

2

of the top 3 aerospace manufacturers use our solutions

5

major telecoms network operators around the world use our solutions and 2 of the top 4 cable companies in US rely on Ubisense solutions

Creating digital twins of the physical world

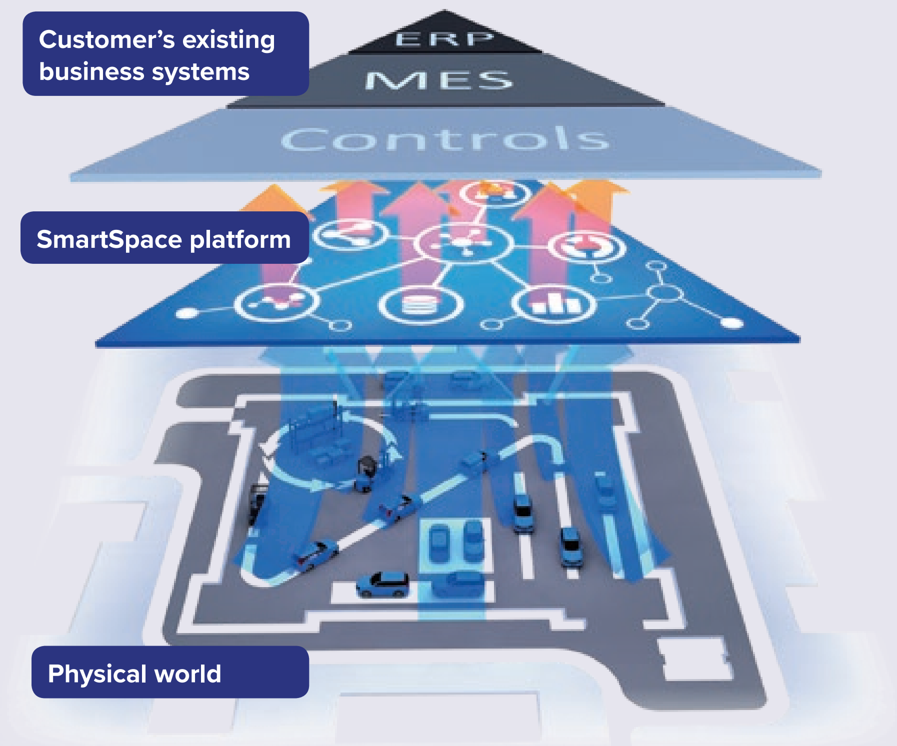
RTLS SmartSpace

SmartSpace solutions are based on a modular software platform that manages real-time location and identification data from multiple sources to support industrial-scale, mission-critical visibility and control applications. SmartSpace has been proven time and time again to help global leaders in manufacturing drive productivity, quality and performance.

Our technology enables customers to create a digital representation of the phyical world and connects it to critical manufacturing and operational systems to create a digital twin that can drive key success factors in their operations.

Industries:

- Passenger and Commercial Vehicles
- Aerospace and Defence
- General Industry (manufacturing and logistics)
- Public Transport



How we ensure return on investment

IMPROVED

- Flexibility
- Productivity
- Quality
- Customer satisfaction

REDUCED

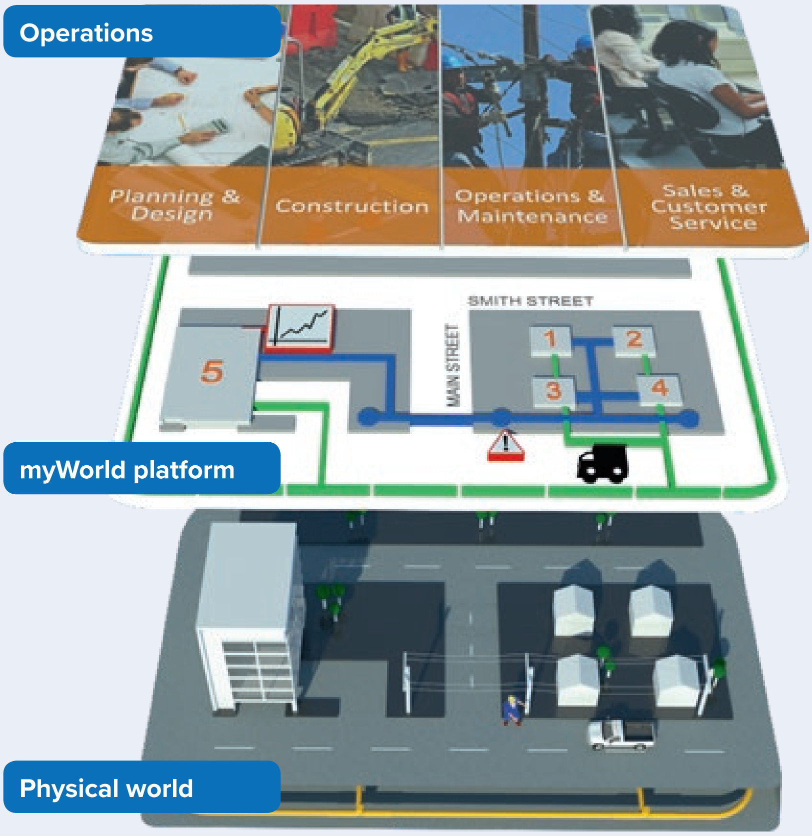
- Complexity of supply chain
- Operational costs
- WIP (work in progress) and inventory costs

FASTER

- Production times
- Rework times
- Revenue growth
- Decision-making

Geospatial myWorld

myWorld transforms the ability of infrastructure companies to manage their geographically dispersed assets by creating a single architecture for geospatial-based applications. myWorld enables a digital twin of assets and operations to global leaders in utility, telecoms and cable companies that can be tailored to meet their business processes and deliver enterprise level improvements in productivity, quality and customer satisfaction.



Sectors:

- Telecoms
- Cable
- Gas
- Electric

How we ensure return on investment

IMPROVED

- Field productivity
- Network KPIs
- Customer service
- Data quality

REDUCED

- Operational cost
- Time-to-repair
- Errors and accidents
- Customer attrition

FASTER

- Time to market
- Resolution times
- Revenue growth
- Decision-making

From “future state” to mission critical

The digitisation of the industrial workplace, development of digital twins and the growth of the Industrial Internet of Things (IIoT) has resulted in a unique set of opportunities for Ubisense to capitalise on.

In the past 15 years, we have built up a strong customer base including 6 of the top 10 Fortune 500 manufacturers, 9 of the leading 10 automotive manufacturers, 2 of the top 3 aerospace manufacturers and 5 of the major telecoms network operators around the world use our solutions including 3 of the top 4 in North America.

With our new software-led approach, we are looking to further increase our reach within these sectors in new and existing customers and territories.

We are continuing to see growth in sectors including aerospace and defence and 2017 saw our very first sale in space and satellites, an exciting new sector which offers huge potential for Ubisense’s SmartSpace solutions.

A new team is in place to sell Ubisense's myWorld into European communications and utilities businesses, utilising our strong customer case studies and use cases from the North American market to help promote the benefits and proven ROI of our myWorld platform.

How Ubisense is best placed to deliver growth

Transition to software led business

The move to software has delivered huge benefits for Ubisense and its customers, with higher value sales that improve integration, automation and productivity for our customers. With renewed positioning and a strong pipeline, Ubisense is in an excellent position to continue this growth.

Poised to capture the dominant digitisation growth cycle

4 in 10 manufacturers are earmarking 5-20% of their total research and development budgets to IIoT products and service development. Over the next five years, the same number expect that investment to ramp up to 10-20%[1].

Established and experts in key sectors

Ubisense already works with some of the leading organisations in each of the key sectors in which we operate. With excellent customer case studies and a team boasting experts in each of our target markets, Ubisense is able to further penetrate these high value sectors.

1 http://usblogs.pwc.com/industrialinsights/2017/10/02/for-us-manufacturers-the-iiot-future-is-now-part-3/.

What are the drivers for Industry 4.0 and digital twins for Real-Time Location System (RTLS) SmartSpace?

Industry investment in smart factory and digital twin technology is increasing and significant.

Industry 4.0 investment until 2020:

Aerospace, defence and security

$15bn

Automotive

$65bn

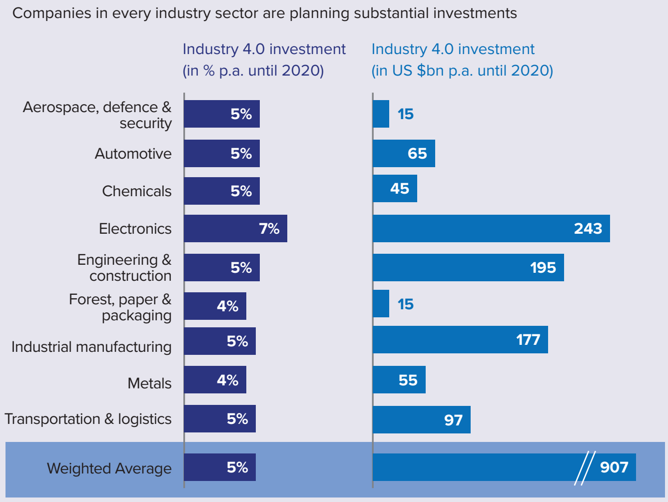
Industrial manufacturing

$177bn

Transportation and logistics

$97bn

Investments in smart factory technology

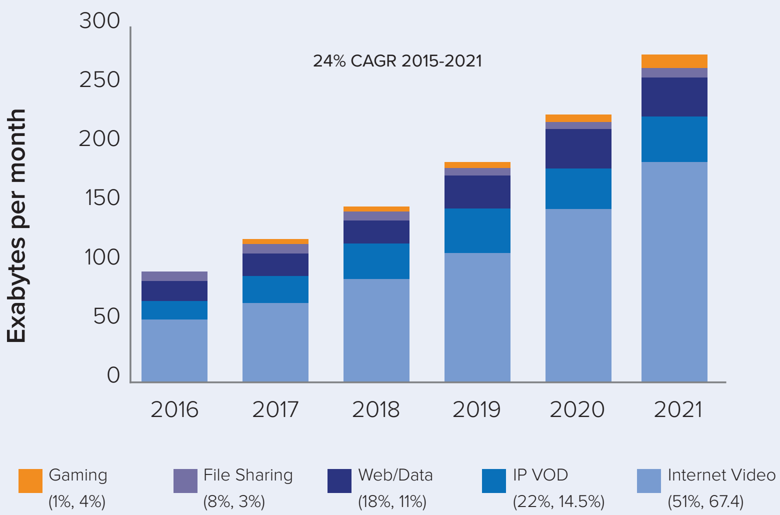


Source: PWC 2016 "Building the digital enterprise"

What are the drivers for Geospatial myWorld?

Global fiber to the home is expected to grow significantly in all markets around the world – 24% CAGR 2015–2021 – with customers committing to multi-billion pound rollouts.

Global fiber to the home growth



Source: Cisco VNI Global IP Traffic forecast, 2016-2021

Market drivers for more bandwidth

Increasing amounts of video at increasing resolution (4K+) for applications including Netflix, Youtube and cable.

More pervasive cameras generating video (home security systems, cars with autonomous driving technologies, streaming from phones, etc), IoT, gaming, video calls and more.

Communications providers also have an imperative to deliver the next generation of fibre based products before 5G wireless technologies become available, which are likely to bring new competition.

Our strategic focus

To revolutionise the world's ability to locate, connect and manage assets, enabling customers to create digital twins that drive productivity, flexibility and quality across their operations.

To become the world's enterprise location technology partner of choice

What we are doing …

Now

Continue to invest in the product roadmap across both sides of the business, adding enterprise capabilities such as analytics and reporting, deeper integration with third-party hardware and enhancing geomobility. This will enable our enterprise platforms to be truly capable of taking data from any source and offer real-time visibility and insight.

In the future

To help our customer solve their business challenges by bringing emerging technologies such as machine learning, augmented reality, digital image recognition and industrial drones to them in a form that has a clear return on investment and is robust enough for industrial operating environments.

To increase growth in existing markets

What we are doing …

Now

Be a trusted adviser to our customers and become a strategic part of their medium and long range planning as they expand their operations globally and introduce new products and services.

In the future

Engage earlier in product development cycles to ensure that we can help them to manage challenges and exploit opportunities by giving them faster and more accurate insight of their own production and operation environments. This will increase our speed of innovation and ability to introduce new products that help our customers with their strategic challenges.

To take our enterprise software platforms to new markets

What we are doing …

Now

To target global leaders in new verticals and new geographic markets we have employed industry experts to help develop our offering specifically for new business challenges in these markets. This will help us to leverage new opportunities for businesses that can only be realised through location technology.

In the future

We are actively developing our portfolio of global partners with extensive networks of expertise and customer access. This will enable us to shorten sales cycles for enterprise scale projects and provide the highest levels of post-production support.

How we make a difference

Thailand's booming auto sector

Ubisense selected as technology to drive Industry 4.0 in Thailand's booming automotive sector.

Read more on page 14

RTLS SmartSpace

Ubisense responds to market demand for improving fiber network

Papers by Accenture and PwC summarise the opportunity that the global rollout of fiber represents for Ubisense.

Read more on page 16

Geospatial myWorld

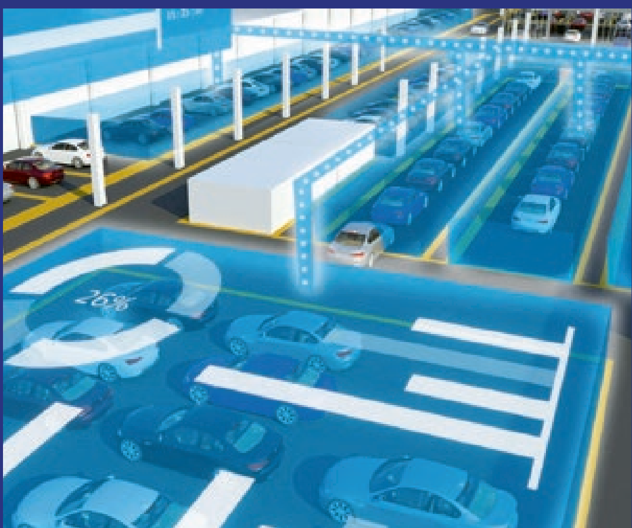
Thailand's booming automotive sector

Ubisense selected as technology to drive Industry 4.0 in Thailand's booming automotive sector

Ubisense SmartSpace has attracted a network of partners around the world, including Logiprotech in Thailand. Founder Ryoichi Sasaki was President of Toyota Thailand plus the President of Toyota Motor Asia-Pacific and is at the forefront of driving Industry 4.0 in the region.

He said: "In May 2017 we began a feasibility study on Ubisense products in Thailand. We were of the view that the latest information technology based on Ubisense market-leading RTLS technology would attract the potential demand for breakthrough improvement in the production and logistics operations across the region."

"We soon recognised that it would make sense to bring in Ubisense products to further enhance the competitive edge of various industries in Thailand. The Thai government is actively promoting the "Thailand 4.0", the policy to make effective use of the most up-to-date technologies in an attempt to restructure and revitalise the industries in Thailand. Taking such factors into consideration, we decided to establish a new joint venture company called LPTT, "Logiprotech (Thailand) Co., Ltd.", in June 2017."



"The Thailand 4.0 policy also gives new government incentives to the latest technologies administered by BOI, Board of Investment. They confirmed that our RTLS, based on Ubisense technology, satisfies the BOI criteria allowing our project to receive relevant incentives. This will certainly contribute to the successful development of our project."

"LPTT launched its first project at a factory of Toyota Motor Thailand at the beginning of November 2017. This is the very first step significantly meaningful to the future of our project. Toyota is well known as one of the most successful automotive manufacturers. In particular, Toyota Production System (TPS), is highly recognised on a global basis. I believe that the IoT technology will help to further develop TPS and hope that our system based on Ubisense RTLS will be able to contribute to such activities. We intend to continue our efforts in deploying our system in Thailand and eventually in other countries in Southeast Asia. We are beginning to receive a number of positive enquiries from other automotive companies as well as other industries than automotive field in Thailand."

"Southeast Asia or ASEAN has huge potential as a big growing market and also as a competitive and reliable manufacturing base. This area, in particular Thailand as the leading country in the region, has signs of needing something innovative to stimulate to dramatically heighten their production and logistics capabilities. I believe that Ubisense RTLS will satisfy such requirements due to its unique and distinctive technology."

Thailand's automotive sector

- As of 2017, Thailand's automotive industry was the largest in Southeast Asia and the 12th largest in the world
- The Thailand industry has an annual output of nearly two million vehicles. That's more than countries such as Belgium, UK, Italy, Czech Republic and Turkey

“We soon recognised that it would make sense to bring in Ubisense products to further enhance the competitive edge of various industries in Thailand.”

Ryoichi Sasaki, Founder of Logiprotech in Thailand and former President of Toyota Motor Asia Pacific

"Providing unparalleled visibility of a communications or utility business by delivering a location-based common operational view of the enterprise"

Geospatial myWorld

Ubisense responds to market demand for improving fiber network

Research by Accenture and PwC summarise the opportunity that the global rollout of fiber represents for Ubisense.

"The communication industry has made dramatic advances in the last five years, witnessing rapid adoption of the latest generation of connected devices and increasing investments in faster networks. At the same time, digital has transformed the consumer experience, bringing new expectations and different rules of engagement[1]."

"The coming era of next-generation broadband networks is bringing about the end of telecommunications operators' traditional deployment model. A number of changes will require innovative responses: Consumers are demanding ever greater bandwidth to support new applications and services. A larger variety of access network technology and rollout options, along with their substantial deployment costs, are forcing operators to make tough choices[2]."

The broadband industry now needs to roll-out next-generation fiber network within aggressive time frames and fixed budgets – improving fibre network technology deployment strategies and solutions is top priority.

In response, Ubisense has launched myWorld Fiber Planning. Now rolled out for a Tier 1 broadband customer, Ubisense's Fiber Planning automates the network infrastructure layout and optimizes the design, utilizing existing infrastructure where possible for the lowest cost results.

Utilising complex mathematical analytical models provided by a partner and integrated with myWorld, it allows customers to produce high quality cost-optimized Fibre to the Home ("FTTH") layouts quickly, enabling faster and more accurate capital planning, prioritization, and mobilization – improving overall time to market.

Ubisense myWorld Fiber Planning has enabled a customer to: "Reduce the planned number of designers for a large, multi-year FTTX project from 100 to 20."

Key benefits include:

- Reduces labour costs associated with the engineering and design process by over 40%
- Time to market is reduced 10 – 20% for any size Fibre to the Home/Cabinet ("FTTX") roll-out
- Enables rapid adjustment to account for field changes
- Produces the most cost effective standards based designs for any scenario reducing capital costs

Fiber to the X (FTTX) comprises the many variants of fiber optic access infrastructure–including fiber to the home (FTTH), fiber to the premise (FTTP), fiber to the building (FTTB), fiber to the node (FTTN), and fiber to the curb or cabinet (FTTC).

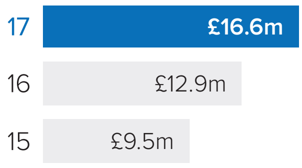
1 https://www.accenture.com/gb-en/insight-challenges-cable-operators-disruption

2 http://strategyand.pwc.com/media/uploads/The_Era_of_Next-Generation_Access.pdf

Key Performance Indicators (KPIs)

Own product revenue

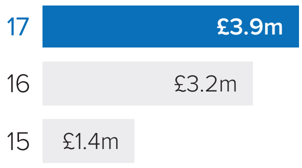
£16.6m



Own product revenue increased by 28% in 2017 with the focus on RTLS SmartSpace and myWorld.

Software revenue

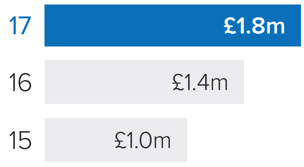
£3.9m



Software sales have increased by 21% in 2017, which will drive recurring revenues from maintenance and support arrangements in future periods.

M&S revenue

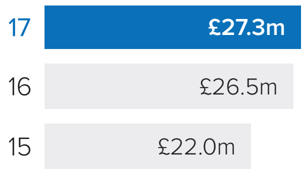
£1.8m



Maintenance & support revenue increased by 34% as a result of higher software sales and operational maintenance recurring revenues.

Total revenue

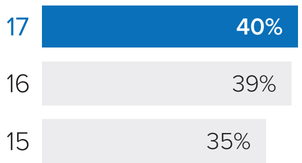
£27.3m



Total revenue increased by 3% while managing a 22% decline in Geospatial services associated with third party products.

Gross margin

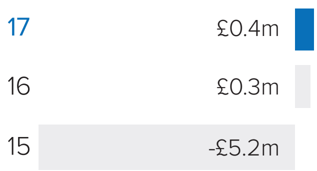
40%



Gross margin increases are a result of higher software sales and a reduced reliance on Geospatial services connected to third party products.

Adjusted EBITDA

£0.4m



Following the restructure undertaken in 2015, the business has stabilised with revenue and gross margin growth achieved alongside efficient management of the cost base.

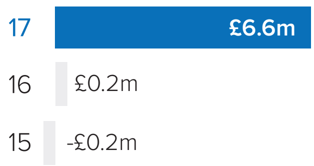
Operating loss

£3.1m

Restructuring of the business in 2016 and subsequent recovery has resulted in a reduction of operating loss.

Net cash

£6.6m



The Group is in a stronger position following the successful fundraise of £5.2 million (net) through a placing of new ordinary shares and tight management of operating cash flow.

Non-financial key performance indicators

Non-financial key performance indicators for the Group include:

- Quantity and quality of lead generation, pipeline and conversions to deals in the sales pipeline.
- Headcount including the number of sales people.

The Board regularly reviews the KPIs in respect of changes within periods and changes between the reporting periods.

Strategy delivering improved results

Significant growth in revenues from Ubisense's own RTLS SmartSpace and Geospatial myWorld products resulted in an improved financial performance for 2017

34%
increase in maintenance and support revenues in 2017

I'm pleased to present the 2017 results which reflect the continued progress that we've made in redefining our software-led strategy and building our go-to-market activity. Our strategy to enable digital twins for both divisions is aligned to our customers' desire to drive productivity and operational performance improvements in line with the digitisation and Industry 4.0 themes which are attracting significant investment spend. With our new modularised software offerings aiding the Return on Investment proposition to our target customers, we have developed a stronger pipeline of better qualified opportunities including increased software values, which will lead to further growth in orders, revenues and margins delivering profitability.

A 28% increase in revenues of Ubisense products has exceeded the decline in services associated with third-party and non-core products within the Geospatial division. The successful placing in November 2017 supports the future growth plans of the Group through investment in go-to-market and product development capacity.

Revenue

The Group is organised into two divisions, RTLS SmartSpace and Geospatial myWorld. Both divisions provide software solutions and services to enterprise customers, with RTLS SmartSpace additionally providing hardware solutions. The revenue composition by division is summarised in the table below:

Revenue by division	**2017 £ m**	% of total revenue	2016 £ m	% of total revenue	Year on year growth (%)
RTLS SmartSpace revenue	**10.8**	40	9.1	34	18
– Geospatial myWorld	**5.8**	21	3.8	15	52
– Geospatial services from third party products	**10.7**	39	13.6	51	(22)
Total Geospatial revenue	**16.5**	60	17.4	66	(5)
Total revenue	**27.3**	100	26.5	100	3

Further revenue composition detail is summarised in the table below:

Revenue detail	**2017 £ m**	% of total revenue	2016 £ m	% of total revenue	Year on year growth (%)
Software	**3.9**	14	3.2	12	21
Maintenance and support	**1.8**	7	1.4	5	34
Hardware	**4.8**	18	3.8	14	30
Services	**6.1**	22	4.5	18	31
Total revenue generated from own products	**16.6**	61	12.9	49	28
Geospatial services from third party products	**10.7**	39	13.6	51	(22)
Total revenue	**27.3**	100	26.5	100	3

Revenue continued

The software focus in both divisions delivered good progress in 2017 with sales into new sectors as well as expanding deployments with existing customers. Modularisation of our software platform offerings together with sales of the new myWorld Fiber Planning product have been key factors in supporting 2017 growth and provide a foundation for growth in future years. The increase in software revenue leads directly to increasing maintenance and support revenues with a 34% increase shown in 2017 over 2016. These maintenance and support revenues are recurring contracts, which are expected to be renewed by customers annually.

Orders

Bookings for own products in 2017 were £17.5 million (2016: £15.5 million). The increase was in line with the strategy to focus on our own products. £10.7 million of new orders related to RTLS SmartSpace (2016: £10.9 million), £6.8 million related to Geospatial myWorld (2016: £4.6 million). Total bookings of new customer orders in 2017 were £22.7 million (2016: £29.3 million).

The order book backlog as at 31 December 2017 was £8.7 million (2016: £12.6 million), most of which will be recognised during 2018. £3.6 million of this related to RTLS SmartSpace (2016: £3.7 million), £2.9 million related to Geospatial myWorld (2016: £1.8 million) and £2.2 million to Geospatial third party Services (2016: £7.1 million).

Gross margin

The Group gross margin increased to 40% in 2017 from 39% in 2016.

Gross margin by division is summarised as follows;

Gross margin by division	2017 £ m	Gross margin %	2016 £ m	Gross margin %	Gross margin movement (%)
RTLS SmartSpace	**4.5**	42	4.0	44	(2)
Geospatial	**6.4**	39	6.2	36	3
Total gross margin	**10.9**	40	10.2	39	1

The gross margin of the RTLS SmartSpace division has reduced compared to 2016 due to a revenue mix with a higher proportion of lower margin hardware and services revenues. The Geospatial division's gross margin increased due to growth in myWorld software revenues partially offset by the 3rd party costs of the mathematical model embedded in the myWorld Fiber Planning product.

Operating expense and adjusted EBITDA

Operating expenses were £13.9 million (2016: £16.4 million) and are summarised as follows:

	2017 £ m	2016 £ m
Other operating expense	**10.5**	9.9
Depreciation	**0.4**	0.3
Amortisation and impairment	**2.4**	8.4
Share based payments expense	**0.3**	—
Unrealised forex on intercompany trading balances	**0.3**	(1.9)
Non-recurring items	**—**	(0.3)
Total operating expense	**13.9**	16.4

Other operating expenses include sales, marketing, product development, administration. Operating loss reduced to £3.1 million (2016: £6.2 million) due to impairments recognised in 2016. Share-based payments expense of £0.3 million (2016: £nil) relates to shares options granted in December 2016.

Adjusted EBITDA excludes amortisation and impairment, depreciation, share-based payments, unrealised foreign exchange gains on intercompany trading balances and non-recurring items and is reported as it reflects the performance of the Group. Adjusted EBITDA was £0.4 million (2016: £0.3 million) with the improvement driven by higher revenues at an increased gross margin.

Finance costs

Net interest payable for the period was £0.1 million (2016: £0.3 million) with reduced costs in 2017 following the restructuring of the HSBC debt in 2016.

Income tax

The Group has a net tax credit of £0.1 million (2016: £1.1 million) as a result of non-cash deferred tax movements. The Group does have substantial tax losses carried forward but does not currently recognise a deferred tax asset in respect of these losses.

Earnings and dividend

Loss before tax reduced to £3.1 million (2016: £6.4 million) and loss after tax was £3.1 million (2016: £5.3 million).

The adjusted diluted loss per share was 4.3 pence (2016: 3.9 pence loss per share). Reported basic and diluted loss per share was 5.2 pence (2016: 10.4 pence).

The Board does not propose a dividend for the year.

Impact of IFRS 15

IFRS 15 Revenue from Contracts with Customers will replace IAS 18 Revenue. The new standard is applicable from 1 January 2018, however 2017 comparatives will be restated under IFRS 15. IFRS 15 introduces a number of new concepts and requirements relating to revenue recognition, and also provides guidance and clarification on existing practice.

The Group has assessed the impact of IFRS 15 and the results of the assessment are stated on page 47. The majority of Ubisense's sales are for products sold on a standalone basis and it is expected that the revenue recognition policy applied to these sales will be unaffected by the application of IFRS 15. Larger, more complex contracts, which involve multiple performance obligations, that include a combination of products and services, are affected by the application of IFRS 15. IFRS 15 requires the Group to evaluate the performance obligations for the contracted products and services to identify whether these components are distinct. Accordingly, the significance of the impact of IFRS 15 is dependent upon the details of those complex contracts particularly those with delivery close to a financial reporting period end.

The financial impact of the adoption of IFRS 15 will be disclosed within the interim results to 30 June 2018.

Impact of IFRS 16

IFRS 16 Leases will replace IAS 17 and three related interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability. The consolidated income statement will be impacted through reduced operating expenses, and higher depreciation and finance costs. The new standard is applicable from 1 January 2019 with an option to adopt it early. The Group intend to early adopt IFRS 16 from 1 January 2018 alongside IFRS 15 Revenue.

The Group leases all of the premises from which it conducts business with annual commitments under operating leases totalling £0.7 million and therefore the impact of IFRS 16 will be material to the financial statements. The Group has assessed the impact of IFRS 16 and the results of the assessment are stated on page 48.

Consolidated statement of financial position

In November 2017, the Group completed a share placing raising gross proceeds of £5.5 million with the placement of 17,187,500 new ordinary shares at a price of £0.32 per share with new and existing shareholders. The net proceeds of £5.2 million from the placing will be used to grow the business, investing in go-to-market capacity and product development.

Alongside the fundraise, the terms of the HSBC loan were renegotiated and this is discussed further in note 17 to the consolidated financial statements.

As at 31 December 2017, the Group had a positive net cash position of £6.6 million (2016: £0.2 million) being £9.1 million of cash and £2.5 million of debt. In January 2018 a further repayment of £0.8 million was made.

Non-current assets

Total non-current assets were £3.5 million (2016: £4.4 million).

Capitalised development costs represent the key intangible assets of the Group whereby this investment in Ubisense's own products will deliver the future growth of the business. Capitalised development costs of £1.6 million (2016: £1.9 million) were recognised in 2017 offset by amortisation of £2.2 million (2016: £2.6 million). The appropriateness of the assessment of the useful life of current development projects was reviewed, but no change has been made to the current three year amortisation period, due to the fast moving nature of the technology. The recoverable amount of the capitalised development costs is supported through the growth in revenues of Ubisense's own RTLS SmartSpace and myWorld products achieved in 2017 and anticipated in future periods.

Current assets

Total current assets increased to £21.1 million (2016: £17.8 million).

Cash increased to £9.1 million (2016: £3.5 million).

Trade receivables net of provisions decreased to £6.2 million (2016: £9.2 million) due to the timing of deals during the year.

Amounts recoverable on contracts totalled £2.7 million (2016: £2.9 million) which are generated from services contracts or end of period deliveries, and are then invoiced in the following month or as the relevant milestone is reached.

Hardware inventories increased to £1.5 million (2016: £1.1 million) due to the completion of a RTLS SmartSpace sensor build program prior to the year end. The Group continues to manage its investment in inventory through the sales forecasting process and regular review of the expected lead times to create RTLS SmartSpace hardware. The sensor build programs are sized to try to balance volume demands against unit cost efficiency and need to work on a 4–6 month lead time as increased global demand is extending component lead times.

Total assets

Total assets increased to £24.6 million (2016: £22.1 million).

Current liabilities

Total current liabilities increased to £10.0 million (2016: £9.0 million). Trade payables increased to £3.0 million (2016: £1.5 million) which was partly due to inventory related purchases close to the year end.

Non-current liabilities

Total non-current liabilities decreased to £2.5 million (2016: £3.4 million) following the reduction in long-term debt from £2.5 million in 2016 to £1.8 million as at 31 December 2017.

Net assets

Net assets increased to £12.1 million (2016: £9.8 million) following the placement of 17,187,500 new ordinary shares at £0.32 in November 2017.

Cash and cash flow

Operating cash flow before working capital movement was £0.4 million inflow (2016: £0.3 million).

Operating cash flows from operating activities after adjusting for working capital and tax was £3.6 million inflow (2016: £2.0 million outflow). Working capital improvements were driven by a reduction in the trade receivables balance at year end.

The Group had investment outflows of £2.1 million (2016: £2.0 million), which is largely made up of expenditure on product development.

Cash inflows from financing activities were £4.3 million (2016: £1.8 million). This included net proceeds from placings of £5.2 million (2016: £4.5 million) offset by repayment of borrowings and interest on those borrowings.

Tim Gingell
Chief Financial Officer
14 March 2018

How we manage risk

The Directors of Ubisense Group plc confirm that we have carried out a detailed assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Risks that present a potential material impact are identified and governed in accordance to our risk management policies.

Effective risk management is critical to the achievement of the Group's long-term growth. The Board has overall accountability for ensuring that risk is effectively managed across the Group through the implementation and review of the Group's risk processes.

The principal risks listed in the table are those we believe could cause our results to differ materially from expected and historical results. They are also the risks that may impact the achievement of the Group's strategic priorities.

Principal risk and impact	Mitigation
Strategic risks	
Growth management	
Near-term expansion is expected in the future to develop existing markets and to expand into new markets. The risks associated with growth include the delivery of market penetration through the conversion of leads to sales, and control of increases in fixed operating costs to support revenue growth. If the Group is unable to manage expansion effectively, its business and financial results could suffer.	• Close monitoring of business development strategy and regular reviews of the sales opportunity pipeline at Board meetings. • Head office support of regional office development in the event of accelerated regional growth. • Development of systems and processes that can scale with the business while maintaining good financial management.
Dependence on key customers	
The Group has a concentrated customer base, many of which are substantially larger enterprises than the Group. The Group is reliant on significant projects with its key customers to deliver financial results. The conversion of opportunities to signed contracts and then the subsequent timing of the projects is not fully under the control of the Group.	• The Group's management performs regular reviews of the opportunity pipeline, including critical stages to complete the larger deals with status reported at Board meetings. • Increase the breadth of the opportunity pipeline through recruitment of more quota-carrying sales and pre-sales personnel. • The Group continues to invest in the key customer relationships that it has successfully retained over many years, while also maintaining a strategy to extend and diversify its customer base.
Technological risk	
The Group operates in an industry where competitive advantage is heavily dependent on technology. Technological development may reduce the importance of the Group's function in the market.	• Regular monitoring of the industry and advances through participation in research forums. • Review of the RTLS SmartSpace and myWorld product roadmaps by the Board to ensure competitiveness. • Continued investment in technologies that meet customer needs. • Monitoring of planned R&D to ensure resources are allocated to deliver advances that are aligned to the Group strategy.

Principal risk and impact	Mitigation
Operational risks	
Customer satisfaction and retention	
Barriers to entry into the market are high with proof of delivery in customer environments essential. The Group operates in a market with a small number of significant customers and reputational damage through poor customer satisfaction could be significant. Large customers generate a high proportion of recurring business as well as up sell and cross sell opportunities. These customers also provide solution references and often trial new products or updates to existing ones. Additionally, poor customer satisfaction could result in delays in the timing of customer payments which would reduce the working capital available to the Group.	• Maintain regular communications with customers. • Ensure appropriate level of resources are applied to key customer accounts. • Deal with issues quickly through a clear escalation path.
Intellectual property ("IP")	
The Group has a patent portfolio 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. Failure to protect the Group's IP may result in another party using its proprietary technology without authorisation. There may not be adequate protection for the IP in every country in which the Group's products are made available and policing unauthorised use is difficult and expensive. 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. The costs of protecting IP and the diversion of resources and management time may be substantial, and there can be no guarantees as to the outcome of litigation.	• The Group regularly reviews the patent status of its intellectual property within its core territories, working with advisers.
Staff recruitment and retention	
The Group's success is substantially dependent upon recruiting, retaining and incentivising senior management and key technically skilled employees, the loss of whom could have an adverse impact on the performance of the business.	• 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. • The Group has implemented Employer of Choice initiatives including career planning and organisational development.
Legal and regulatory breaches	
The Group is required to comply with local laws, regulations and legislation in each jurisdiction in which it operates. These include compliance with financial reporting and conduct requirements, Health & Safety, Data Protection and anti-Bribery rules. Failure to comply with local laws may result in the cessation of the ability to trade in that jurisdiction, fines or the allocation of resources to perform corrective actions.	• The Group monitors new developments taking input from local advisers. • The Group regularly reviews its processes to ensure that the risk of default is minimised.
International trade	
On 29 March 2019, the UK will leave the European Union. The risks associated with Brexit include a potential increase in the level of market volatility, barriers to trade between the UK and the EU following the end of any transition arrangements that come into force post Brexit, and may impact the investment plans of our customers. The Group is exposed to economic downturn within the markets in which it operates.	• European customers enter into contracts with local subsidiaries of Ubisense Group plc including legal entities based in France and Germany. • The Group could consider moving its manufacturing location if trade barriers became prohibitively expensive. • The Group's customer sales are spread across multiple territories which will partially mitigate against a down-turn in any one region.
Digital infrastructure and cyber security	
Breaches of the Group's digital security through cyber attacks or otherwise, or failure of the Group's digital infrastructure could seriously disrupt operations, including the provision of customer services and result in the loss or misuse of sensitive information, legal or regulatory breaches resulting in potential liability, and reputational damage among the customer base leading to a decline in revenues.	• The Group continues to invest in resources in enhancing site resilience and defences, improving network monitoring and reviewing the incident response processes to mitigate the impact of a security breach. • Short and medium-term cyber security plans are regularly reviewed by the Board.

Principal risk and impact	Mitigation

Financial risks

Future funding requirements

The Group may need to raise additional funding beyond that provided by the share placing in November 2017 and the existing HSBC facility. There is no certainty that such fundraising will be possible or on acceptable terms. In addition, the terms of any such financing may be dilutive to, or otherwise adversely affect shareholders.

- Clear communication of our medium and long-term strategy to our investors and bankers.
- Monitoring of mid to long-term cash flow requirements and anticipated business performance. Adjusting activities through the business planning process.

Bank covenants

In October 2016, the Group restructured the HSBC working capital loan facility. As at 31 December 2017, the balance of the facility was £2.5 million. The Group is required to meet the covenants as explained in note 17 to the financial statements. If the Group were unable to meet the covenants of the facility the debt would be repayable on demand, which would have an impact on the working capital available to the business.

- Net cash position of £6.6 million (2017: £0.2 million).
- Monitoring of cash flow requirements and adjusting activities through the business planning process.
- Monitoring of covenants and testing for actual or forecast breach throughout the year.

Taxation

The Group operates globally and is exposed to international tax laws. Changes to taxation legislation such as the withdrawal/reduction of UK tax incentives to perform R&D, would have an adverse impact on the working capital of the Group.

- The Group reviews local compliance and upcoming changes to legislation with its advisers and continues to update forecasts accordingly.

Foreign exchange risk

The Group's international operations expose it to a number of risks that include the effect of changes in foreign currency exchange rates. A major proportion of the Group's receivables and payables is currently denominated in Canadian dollars, US dollars, Euros and Japanese Yen.

- The Group relies on a partial natural hedge of Canadian dollar, US dollar, Euro and Japanese Yen receivables being in the same currency as the local operation's payables.
- The Group's working capital is forecast and monitored in the local currency of each subsidiary allowing the foreign currency exposure across the Group to be reviewed.

Financial reporting risk

In preparing the financial statements, the Group makes accounting estimates that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year. These judgements are detailed further in note 4 to the financial statements and include revenue recognition, the treatment of RTLS SmartSpace and myWorld development costs and valuation of inventories.

A material error in the accounting estimates applied during a reporting period would impact upon bank covenants testing for the existing HSBC loan and could adversely impact the ability of the Group to raise additional funding.

- In forming our accounting judgements, management discuss estimates with internal experts within the Ubisense Group to ensure all relevant facts are understood.
- The underlying fact pattern and conclusions reached in making accounting judgements are discussed in detail with the Audit Committee of the Group.
- Early consideration of forthcoming changes such as IFRS 15 and IFRS 16.

Risks reported in prior year which are no longer considered to be principal risks

Credit risk associated with delays in customer payment, was identified as a principal risk in prior periods due to the potential impact on working capital available to the Group. While the risks continue to be monitored, management no longer believe this to be a principal risk due to the stronger cash position of the Group. As the majority of the Group's customers are large, blue-chip utilities, telecoms and manufacturing companies, the risk of non-payment is more likely to be related to customer satisfaction and this continues to be a principal risk that has been considered above.

The Strategic report was approved by the Board of Directors on 14 March 2018 and signed on its behalf by:

Tim Gingell
Chief Financial Officer
14 March 2018

Guidance and counsel

The Board of Directors has overall responsibility for the Group. Its aim is to provide the leadership and industry specific insight required to develop a successful business, through utilising the broad range of skills and experience of the Board members.

Peter Harverson

Chairman

Experience

Peter was appointed chairman on 1 January 2016 (executive chairman from 18 May 2016 to 31 July 2017) having been appointed a non-executive director on 10 November 2005. Peter has held a number of senior international sales and marketing roles in the IT industry including 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 2004. He was non-executive chairman of Aspex Semiconductors Limited, sold to Ericsson AB in July 2012, and more recently, senior non-executive director at Brady plc, and non-executive director at eoSemi Ltd.

Other Appointments

Currently, Peter is a non-executive director CRFS Ltd and also non-executive chairman of enModus Ltd.

Richard Petti

Chief Executive Officer

Experience

Richard Petti brings 25 years of experience in developing market leading businesses for automotive, financial and industrial customers. He was previously CEO of Asset Control, a supplier of data management systems to leading financial institutions, and COO at WEMA, a leading provider of sensors to commercial vehicle manufacturers.

Tim Gingell

Chief Financial Officer

Experience

Tim has over 25 years of commercial and financial experience across software, wireless and telecoms industries. Tim qualified as a Chartered Accountant with Deloitte in London and held leadership positions at i2/IBM, The Cloud Networks and MFS/WorldCom.

Dr Robert Sansom

Non-Executive Director

Experience

Dr Robert Sansom co-founded and was CTO of FORE Systems which was listed on NASDAQ in 1994, and acquired by Marconi for $4.5 billion in 1999. Robert joined the Ubisense board on 16 December 2005. An active angel investor and mentor to start-ups, he co-founded and was chairman of the Cambridge Angels from 2001 to 2010.

Other Appointments

Robert is a non-executive director in a number of entrepreneurial companies and charitable enterprises including Myrtle Software Ltd, Focal Point Positioning Ltd, Featurespace Ltd, Camfed International, Cambridge Communication Systems Ltd, CRFS Ltd and Netronome Inc. Robert was elected as a Fellow of the Royal Academy of Engineers in 2010.

Paul Taylor

Non-Executive Director

Experience

Paul Taylor spent over twenty-one years with AVEVA Group plc a global engineering IT software supplier to the plant, power and marine industries and was Group Finance Director from 2001 to 2011. Paul is a Fellow of the Chartered Association of Certified Accountants and was recipient of the FTSE250 Finance Director of the Year in 2008. Paul was appointed to the Ubisense board on 28 February 2011. Previously, Paul was a non-executive director of Anite plc prior to its acquisition by Keysight Technologies in 2015 and KBC Advanced Technologies plc prior to its acquisition by Yokogawa in 2016.

Other Appointments

Paul serves as a non-executive director of Escher Group Holdings plc, a non-executive director of Thruvision Group plc, and a trustee of the CAD Centre Pension Fund.

Ian Kershaw

Non-Executive Director

Experience

Ian has over 30 years' experience in the automotive, manufacturing and power industries. Ian was appointed as a non-executive director to the Ubisense board on 23 May 2014. Previously, Ian was a director of Ricardo UK Ltd.

Other Appointments

Ian is executive chairman of Coryton Advanced Fuels (Premier Topco Limited), a supplier of bespoke fuels to the world's automotive industry. He is also a non-executive director of Surface Generation Ltd.

Oliver Scott

Non-Executive Director

Experience

Oliver was a founding partner of Kestrel Partners LLP in 2009. Prior to Kestrel, Oliver spent 20 years advising smaller quoted and unquoted companies, latterly as a director of KBC Peel Hunt Corporate Finance. Oliver was appointed as a non-executive director of Ubisense Group plc on 18 May 2016. Previously Oliver was a non-executive director of KBC Advanced Technologies plc prior to its acquisition by Yokogawa in 2016.

Other Appointments

Oliver is a fund manager of Kestrel Opportunities which pursues an activist investment strategy focused on small and microcap companies listed on the London Stock Exchange. The fund has a particular focus on enterprise software and services companies.

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 June 2016 ("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, four Non-Executive Directors and two Executive Directors. Biographical details of all members of the Board are set out on pages 26 and 27. In May 2016, the Chairman moved from a Non-Executive position to Executive on the departure of the previous CEO. The Chairman resumed a Non-Executive position on 1 August 2017.

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. The Chairman was granted share options in December 2017 while he was Executive Chairman and these options remain active. At the end of the year, all Non-Executive Directors except Oliver Scott held shares in Ubisense Group plc. Oliver Scott is a partner and founder of Kestrel Partners who have a significant interest in Ubisense Group plc.

The holding of shares and/or share options by Non-Executive Directors could, among 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. Paul Taylor is recognised by the board as the Senior Independent Director.

The roles of Non-Executive Chairman and Chief Executive Officer are vested in separate individuals, each with a clear allocation of accountability and responsibility. The Non-Executive 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 is such 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 ten 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 Group;
- 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 2017

The Board is expected to meet regularly on a formal basis at least ten times a year. 15 Board meetings were held in 2017. Attendance at the meetings was as follows:

	Total meetings attended
Peter Harverson	15 (15)
Richard Petti	15 (15)
Tim Gingell	15 (15)
Robert Sansom	14 (15)
Paul Taylor	15 (15)
Ian Kershaw	13 (15)
Oliver Scott	13 (15)

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

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 2017 was as follows;

	Audit Committee	Nomination Committee	Remuneration Committee
Peter Harverson	—	Yes	—
Robert Sansom	—	Chair	—
Paul Taylor	Chair	Yes	Yes
Ian Kershaw	Yes	—	Chair
Oliver Scott	—	—	Yes

Summary of Committee meeting attendance

	Audit Committee	Nomination Committee	Remuneration Committee
Peter Harverson	—	2 (2)	—
Robert Sansom	—	2 (2)	—
Paul Taylor	4 (4)	2 (2)	2 (2)
Ian Kershaw	4 (4)	—	2 (2)
Oliver Scott	—	—	2 (2)

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

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. 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 twice 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 Chairman 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 twice 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, 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.

The Directors present their annual report on the affairs of the Group together with the audited financial statements for the year to 31 December 2017. The Corporate Governance Statement set out on pages 28 and 29 forms part of this report.

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.

Principal activity

The Group delivers enterprise location intelligence solutions that enable our customers to create a real-time digital twin of their physical operations.

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 19 of the consolidated financial statements.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 20.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Directors

The Directors serving at 31 December 2017 were as follows:

Peter Harverson
Riccardo (Richard) Petti
Timothy (Tim) Gingell
Robert Sansom
Paul Taylor
Ian Kershaw
Oliver Scott

Board changes

In May 2016, the Chairman, Peter Harverson, moved from a Non-Executive position to Executive on the departure of the previous CEO. The Chairman resumed a Non-Executive position on 1 August 2017

Substantial shareholdings

On 14 March 2018, the Company had been notified of the following significant interests in its ordinary share capital:

	Total holding Number	% of issued share capital
Kestrel Partners	20,645,493	28.25%
Columbia Threadneedle Investments	13,621,793	18.64%
Robert Sansom	6,235,899	8.53%
NFU Mutual Insurance Society Ltd	4,326,490	5.92%
Janus Henderson Investors	3,525,271	4.82%
Hargreave Hale	2,900,000	3.97%
Seren Capital Management	2,750,000	3.76%

Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group plc at 31 December 2017 were as follows:

	2017 Number	2016 Number
Peter Harverson	**223,286**	145,161
Richard Petti	**78,125**	—
Tim Gingell	**86,875**	40,000
Robert Sansom	**6,235,899**	4,985,899
Paul Taylor	**191,459**	113,334
Ian Kershaw	**2,000**	2,000
Total	**6,817,644**	5,286,394

Oliver Scott has no direct interest in the ordinary shares of Ubisense Group plc but is a partner with the significant shareholder Kestrel.

In November 2017, Ubisense Group plc completed a placing of 17,187,500 new ordinary shares at a price of 32 pence per share raising gross proceeds of £5.5 million. Kestrel and certain Directors subscribed to an aggregate 6,081,250 shares for total consideration of £1.9m. The subscriptions by Robert Sansom (1,250,000 shares), Peter Harverson (78,125 shares), Paul Taylor (78,125 shares), Richard Petti (78,125 shares), Tim Gingell (46,875 shares), Kestrel (4,550,000 shares), are all related party transactions under the AIM Rules for Companies.

There has been no change in the interests set out above between 31 December 2017 and 14 March 2018.

Directors' interests

Details of Directors' remuneration and share options are provided in the Directors' remuneration report on pages 32 and 33. 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.

Financial risk management

Financial risks and mitigating activities have been set out within the Strategic report and note 24 to the financial statements.

Going concern review

The Board has considered the going concern position of the Group which is discussed further in note 3 to the financial statements.

Post-balance sheet events

On 6 March, Ubisense Group plc entered into agreements to carve out the third party geospatial services business of its Japanese subsidiary, Geoplan Company Limited. Under the terms of the agreement customer relationships, the Geoplan brand name, fixed assets including certain market specific products, stock and 13 employees will be transferred to a new company, with the new company being sold for a consideration of JPY 100 million (approximately £0.7 million). The assets being sold have an immaterial carrying value within the consolidated statement of financial position as at 31 December 2017.

The agreed completion date of the transaction is 30 March 2018.

Alongside this transaction, Ubisense has agreed, subject to contract completion, to acquire the 23% minority interest of Geoplan Company Limited. The acquisition of this minority interest will give the Group 100% ownership of its remaining Japanese operations. Geoplan Company Limited will be renamed Ubisense Japan K.K.

These transactions are consistent with Ubisense's strategy of refocusing the Group on growing revenues from its own IP whilst managing the reduction in third party geospatial services revenues.

Dividends

The Directors do not recommend payment of a dividend for the year (2016: £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
Chief Financial Officer and Company Secretary
14 March 2018

Ubisense Group plc
Registered number: 05589712

Introduction

Ubisense Group plc has elected voluntarily to prepare a Directors' remuneration report. As a company admitted to trading on the AIM, the Company is not required to provide a formal remuneration report and this is provided to give greater transparency of the Group's remuneration policy.

This report is on the activities of the Remuneration Committee for the period to 31 December 2017. It sets out the remuneration policy and remuneration details for the Executive and Non-Executive Directors of the Company.

Composition of the Remuneration Committee

The Remuneration Committee comprises of Ian Kershaw, Paul Taylor and Oliver Scott who are Non-Executive Directors of the Company.

The Committee advises the Board on remuneration policy and defines the remuneration and terms and conditions of employment of the Executive Directors. In addition, it reviews the remuneration policy for the Group as a whole and oversees and approves the Group's share incentive plans for all participants.

Oliver Scott who is not an independent Director, sits on the Remuneration Committee. The Board acknowledge that this is not considered best practice but feel that it is appropriate for the scale and structure of the Group at this stage given his knowledge, experience and ability to represent investor interests.

Remuneration practice overview

The Committee believes in pay for performance and that Executive Directors' remuneration should be designed to promote the long-term success of the Group.

When reviewing and setting remuneration policy, the Committee benchmarks remuneration against quoted companies of a similar size and considers a range of factors including the Group's strategy and circumstances, the prevailing economic environment and best practice guidelines. The policy must also enable Ubisense Group plc to attract, retain and motivate the talent it needs to ensure success.

The remuneration of the Non-Executive Directors is determined by the Executive Directors, the Senior Independent Director and the Chairman, rather than the Remuneration Committee.

Remuneration of Executive Directors

The Executive Directors are entitled to receive base salary, benefits, employer pension contributions and to participate in share option schemes approved by the Remuneration Committee.

The appointment of the Chief Executive Officer and the Chief Financial Officer is terminable on six months' notice by either party.

Base salary

Base salaries are reviewed annually and adjustments made if required to reflect Group performance, individual performance and market rates. Remuneration is through the Group's flexible benefits scheme under which the individuals can elect to switch basic salary into pension contributions and other benefits.

Benefits

The Group offers benefits to all employees including life assurance and healthcare solutions, appropriate to each of the markets in which it operates.

Bonuses

Executive Directors are eligible to participate in an annual bonus programme, which is calculated by reference to the annual financial targets of the Group and the achievement of strategic goals set by the Remuneration Committee.

Pensions

The Group operates a defined contribution personal pension scheme. Under the scheme rules the Group pays a matched contribution of up to 5% of base salary as adjusted for current pension legislation. The scheme is open to Executive Directors and employees.

Remuneration of Non-Executive Directors

The Non-Executive Directors have entered into letters of appointment with the Company. The appointments are terminable on one month's notice by either party. The Non-Executive Directors, including the Non-Executive Chairman, may participate in the Group's pension scheme.

The appointment of the Non-Executive Chairman is terminable on three months' notice by either party.

Directors' remuneration

The Directors received the following remuneration during the year:

Director	Basic salary £'000	Benefits in kind £'000	Performance payments £'000	2017 total excluding pensions £'000	Pensions £'000	Total 2017 £'000	Total 2016 £'000
Richard Petti[1]	**210**	**2**	**50**	**262**	**37**	**299**	7
Tim Gingell[2]	**151**	**2**	**20**	**173**	**8**	**181**	71
Richard Green	—	—	—	—	—	—	242
Executive Directors	**361**	**4**	**70**	**435**	**45**	**480**	320
Peter Harverson[3]	**134**	—	—	**134**	**11**	**145**	195
Robert Sansom[4]	—	—	—	—	—	—	—
Paul Taylor	**25**	—	—	**25**	—	**25**	43
Oliver Scott[5]	**20**	—	—	**20**	—	**20**	12
Ian Kershaw	**25**	—	—	**25**	—	**25**	25
Non-Exec Directors	**204**	—	—	**204**	**11**	**215**	275
Total	**565**	**4**	**70**	**639**	**56**	**695**	595

1 2016 remuneration for Richard Petti is included from the date of his appointment as CEO on 14 December 2016. He is entitled to a performance related bonus of up to £125,000

2 2016 remuneration for Tim Gingell is included from the date of his appointment on 6 August 2016. He is entitled to a performance related bonus of up to £50,000

3 From 18 May 2016 the salary of Peter Harverson while acting as Executive Chairman was £185,000. From 1 August 2017, Peter Harverson resumed the role of Non-Executive Chairman and the salary reduced to £75,000.

4 Robert Sansom has waived his entitlement to annual remuneration of £25,000 (2016: £25,000 waived).

5 Oliver Scott was appointed Non-Executive Director of the Company on 17 May 2016. The annual remuneration of the appointment is £20,000.

Share options

The Company issues share options to the Executive Directors and employees to reward performance and to align interests with those of the shareholders.

The aggregate emoluments disclosed above within Directors' remuneration does not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

On 14 December 2016 Ubisense Group plc implemented a long-term incentive share option plan for Executive Directors and key management. As participants in the new share scheme, Ubisense Group plc granted 3,150,000 options of 2 pence each in the Company to the Executive Directors with an exercise price set at the nominal value. The options will vest if the Company's share price exceeds 70p for 60 consecutive days between the 2nd and 3rd anniversary of issue and the period of employment continues for over 3 years.

Director	Award date Year	Vests Years	Expires Year	Exercise price £	Awards Outstanding at 1 January 2017 Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	**Awards outstanding at 31 December 2017 Number**	Awards exercisable at 31 December 2016 Number
Peter Harverson	2010	2011-13	2020	0.14	91,333	—	—	—	**91,333**	91,333
	2016	2019	2026	0.02	850,000	—	—	—	**850,000**	—
					941,333	—	—	—	**941,333**	91,333
Richard Petti	2016	2019	2026	0.02	1,600,000	—	—	—	**1,600,000**	—
Tim Gingell	2016	2019	2026	0.02	700,000	—	—	—	**700,000**	—
Total					3,241,333	—	—	—	**3,241,333**	91,333

Corporate governance

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors 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 law, including FRS 102 'The Financial Reporting Standard' applicable in the UK and Republic of Ireland). 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:

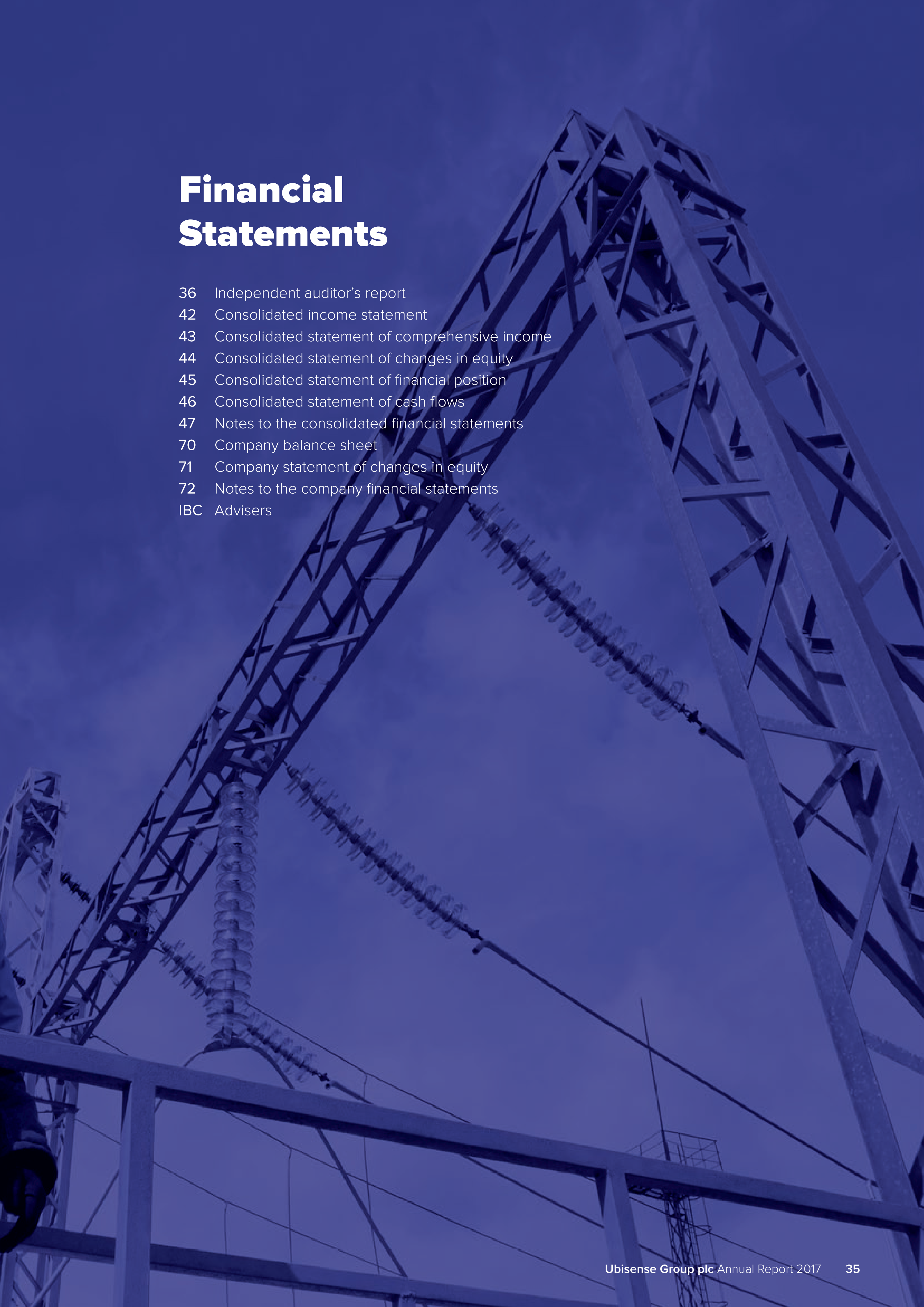
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the consolidated 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.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the companies auditor is unaware; and
- the Directors have taken all the steps they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the companies auditor is 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.



Financial Statements

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Ubisense Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall Group materiality: £271,000, which represents 1% of the Group's revenue excluding rental income;
- We performed full scope procedures at Ubisense Group plc, Ubisense Limited, Ubisense Inc.; targeted procedures on Ubisense Solutions Inc, Ubisense GmbH, Ubisense Inc (Japan), Geoplan Co. Limited; analytical procedures were performed for all other components; and
- Key audit matters were identified as
  - improper recognition of revenue due to fraud;
  - the capitalisation of intangible development costs may not be appropriate; and
  - impairment of the carrying value of capitalised development costs.

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.

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

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Improper recognition of revenue due to fraud Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue due to fraud. The Group has recognised revenues of £27.3m (2016: £26.5m) in the year. Whilst the Group is organised into two divisions, revenue comprises sales of hardware, software, maintenance and support and labour and installation services. The nature of the Group's revenue involves the processing of numerous transactions, with each stream possessing different revenue recognition criteria. As the Group's revenue is material to the financial statements, comprises various streams and is subject to different recognition policies, the presumed risk of improper recognition of revenue due to fraud has been identified as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have ensured the occurrence of revenue by selecting a sample of sales orders from the four revenue streams and testing as follows: **Hardware –** agreement to signed contracts or shipping documentation to ensure occurrence **Software –** agreement to customer confirmation of receipt for new licences, or purchase orders for renewed licences. Where no purchase orders are received we have agreed the invoices to cash receipt **Maintenance and support –** obtained purchase orders, recalculated revenue recognised and verified the appropriateness of any deferred income at the year end **Labour and installation services –** agreement to signed contracts or purchase orders. Percentage completion workings were obtained and verified to timesheets, subcontractor invoices or other supporting documentation. The appropriateness of any deferred or accrued income balances was verified by recalculating revenue recognised to date against invoices and other supporting documentation.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Improper recognition of revenue due to fraud – continued	Other audit work included, but was not restricted to: • the testing of revenue recognition policies for consistency and compliance with relevant accounting standards; • analytical procedures over revenue in total disaggregated by revenue stream, operating segment, location and month (month by month analysis of current year against prior year revenue) to identify and analyse key movements and significant transactions which have occurred in the year; • obtaining explanations and corroborating evidence for key movements and significant transactions identified. The Group's accounting policy on revenue recognition is disclosed in note 3 to the financial statements and related disclosures are included in note 5. **Key observations** Our testing did not identify any material misstatements in the revenue recognised during the year or any instances of revenue not being recognised in accordance with stated accounting policies
Capitalisation of intangible development costs may not be appropriate Under IAS 38 'Intangible Assets', development costs must be capitalised if the recognition criteria is met, including determining whether the project provides a future economic benefit to the Group. This presents a risk that development costs are incorrectly capitalised. During the year, the Group has capitalised £1.6m (2016: £1.9m) in development costs in relation to various projects. The capitalisation of these costs is subject to specific recognition criteria, as set forth in IAS 38, which includes the judgments and assumption involved in determining whether the projects will provide future economic benefit to the Group and be financially viable. This leads to a risk that these criteria may not be met. Due also to the materiality of the balance, the capitalisation of intangible development costs has been identified as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing product development activities alongside the qualifying nature of the projects to ensure that capitalisation is in accordance with the appropriate criteria under IAS 38; and • detailed substantive testing on capitalised labour cost additions in the year has been performed, tracing employee costs to supporting documentation, including timesheets and salary data. The Group's accounting policy on intangible assets is shown in note 3 to the financial statements and related disclosures are included in note 11. **Key observations** Our testing did not identify any material misstatements in the capitalisation of intangible development costs in accordance with IAS 38. Intangibles capitalised were found to be in accordance with stated accounting policies.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Carrying value of capitalised development costs may not be appropriate There is a risk, due to the degree of uncertainty involved in forecasting and discounting future cash flows associated with development projects, that development assets may be impaired. The net book value of capitalised development costs at the year end amounted to £2.7m (2016: £3.3m), including amortisation charged on capitalised development costs of £2.2m (2016: £2.6m). These costs are amortised by the company to ensure the capitalised cost reflects the anticipated benefit of the development project to the Group over time. In accordance with IAS 36, 'Impairment of Assets', an annual review is required to assess whether there is any indication that assets may be impaired. Due to the financial performance of the group, an impairment review has been performed by management to determine whether the carrying value of these assets is appropriate. The impairment review is based on identifiable assets for which future revenues and gross margins can be assigned to calculate a value in use based on a discounted cash flow model. Management's assessment of the potential impairment of the Group's development costs incorporates key assumptions over the timing and extent of future revenues, gross margin and the discount rate used. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, we therefore identified the impairment of the carrying value of capitalised development costs as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing the amortisation policy applied against capitalised development costs for consistency with prior year and adequacy of the useful economic life; • comparing projects against which amounts are capitalised to the net present value calculations, produced by management, based on future income generation the technology will realise; • checking the mathematical accuracy of the impairment models; • testing the accuracy of management's estimates used in the net present value calculations by comparing the 2017 budgeted sales and gross profit to the results achieved for the year and performing sensitivity analysis of expected revenue for 2018 onwards; • evaluating the sensitivity of the discount rate applied to future cash flow; • discussing and corroborating the ongoing viability of projects with relevant Group personnel; and • assessing management's review of possible impairment of intangible assets and challenging the basis of key assumptions used. The Group's accounting policy on intangible assets is disclosed in note 3 to the financial statements and related disclosures are included in note 11. **Key observations** Our testing did not identify any material misstatements in the carrying value of the capitalised development costs and any reasons for impairment of intangible assets or additional factors to consider that would impact the carrying value of intangible assets recognised within the financial statements and we found no material errors in the calculations.

We did not identify any Key Audit Matters relating to the audit of the financial statements of the Parent Company.

Our application of materiality

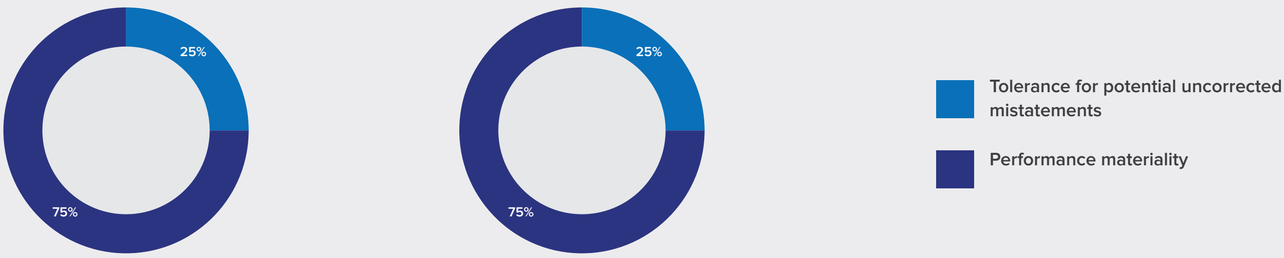
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£271,000 which is 1% of the Group revenue excluding rental income for the year. This benchmark is considered the most appropriate because the Group is a commercially focused organisation with fluctuating results. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 using the same basis.	£203,000 which is 1% of expected total assets restricted to Group performance materiality. This benchmark is considered the most appropriate because the Parent Company does not generate revenues or profits and holds investments in subsidiaries. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 using the same basis.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determine a lower level of specific materiality for directors' remuneration and related party transactions of £1,000 due to the inherent sensitivity of these transactions and related disclosures.	We also determine a lower level of specific materiality for directors' remuneration and related party transactions of £1,000 due to the inherent sensitivity of these transactions and related disclosures.
Communication of misstatements to the audit committee	£13,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – group **Overall materiality – parent**



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

- evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the Group's total assets, revenues and profit before taxation;
- full scope audit procedures performed at Ubisense Group plc, Ubisense Limited and Ubisense Inc, targeted procedures performed at Ubisense GmbH, Ubisense Solutions Inc, Ubisense Inc (Japan) and Geoplan Co. Limited, and analytical procedures performed at all other components;
- component auditors were used to complete audit procedures for Ubisense GmbH, Ubisense Inc (Japan) and Geoplan Co. Limited. The Group audit team sent Group instructions to the component auditors as to the required procedures to be completed over the significant areas for Group purposes within each component. The Group audit team reviewed the underlying audit working papers for these significant areas;
- the total percentage coverage of full-scope and targeted procedures over the Group's revenue was 100%;
- the total percentage coverage of full scope and targeted procedures over the Group's total assets was 96%; and
- our audit approach in the current year is consistent with the audit approach adopted for the year ended 31 December 2016 being substantive in nature.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 34, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

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

Matters on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

14 March 2018

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue	5	**27,255**	26,523
Cost of revenues		**(16,398)**	(16,280)
Gross profit		**10,857**	10,243
Operating expenses		**(13,912)**	(16,408)
Operating loss		**(3,055)**	(6,165)
Analysed as:			
Gross profit		**10,857**	10,243
Other operating expenses		**(10,492)**	(9,919)
Adjusted EBITDA		**365**	324
Depreciation	12	**(417)**	(345)
Amortisation and impairment of acquired intangible assets	11	**—**	(1,223)
Amortisation and impairment of other intangible assets	11	**(2,435)**	(7,143)
Share option expense	20	**(316)**	—
Unrealised foreign exchange gains/(losses) on intercompany trading balances		**(252)**	1,877
Non-recurring items	8	**—**	345
Operating loss		**(3,055)**	(6,165)
Finance income	7	**8**	44
Finance costs	7	**(87)**	(323)
Loss before tax		**(3,134)**	(6,444)
Income tax	9	**61**	1,136
Loss for the year		**(3,073)**	(5,308)
Loss attributable to:			
Equity shareholders of the Company		**(3,055)**	(5,196)
Non-controlling interest		**(18)**	(112)
		(3,073)	(5,308)
Loss per share attributable to the equity shareholders of the parent (pence)			
Basic	10	**(5.2p)**	(10.4p)
Diluted	10	**(5.2p)**	(10.4p)

The notes on pages 47 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2017 £'000	2016 £'000
Loss for the year	**(3,073)**	(5,308)
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	**(33)**	(1,357)
Total comprehensive loss for the year	**(3,106)**	(6,665)
Attributable to:		
Equity shareholders of the Company	**(3,067)**	(6,682)
Non-controlling interest	**(39)**	17
Total comprehensive loss for the year	**(3,106)**	(6,665)

The notes on pages 47 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	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 2016	732	37,422	875	(539)	(26,996)	11,494	456	11,950
Loss for the year	—	—	—	—	(5,196)	(5,196)	(112)	(5,308)
Exchange difference on retranslation of net assets and results of overseas subsidiaries	—	—	—	(1,486)	—	(1,486)	129	(1,357)
Total comprehensive loss for the year	—	—	—	(1,486)	(5,196)	(6,682)	17	(6,665)
Reserve credit for equity-settled share-based payment	—	—	(52)	—	—	(52)	—	(52)
Issue of new share capital	386	—	—	—	—	386	—	386
Premium on new share capital	—	4,427	—	—	—	4,427	—	4,427
Share issue costs	—	(295)	—	—	—	(295)	—	(295)
Transactions with owners	386	4,132	(52)	—	—	4,466	—	4,466
Balance at 31 December 2016	1,118	41,554	823	(2,025)	(32,192)	9,278	473	9,751
Loss for the year	—	—	—	—	(3,055)	(3,055)	(18)	(3,073)
Exchange difference on retranslation of net assets and results of overseas subsidiaries	—	—	—	(12)	—	(12)	(21)	(33)
Total comprehensive loss for the year	—	—	—	(12)	(3,055)	(3,067)	(39)	(3,106)
Reserve credit for equity-settled share-based payment	—	—	316	—	—	316	—	316
Issue of new share capital	344	—	—	—	—	344	—	344
Premium on new share capital	—	5,158	—	—	—	5,158	—	5,158
Share issue costs	—	(337)	—	—	—	(337)	—	(337)
Transactions with owners	344	4,821	316	—	—	5,481	—	5,481
Balance at 31 December 2017	**1,462**	**46,375**	**1,139**	**(2,037)**	**(35,247)**	**11,692**	**434**	**12,126**

The notes on pages 47 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	11	**2,962**	3,616
Property, plant and equipment	12	**493**	745
Total non-current assets		**3,455**	4,361
Current assets			
Inventories	13	**1,459**	1,064
Trade and other receivables	14	**10,544**	13,221
Cash and cash equivalents	15	**9,114**	3,498
Total current assets		**21,117**	17,783
Total assets		**24,572**	22,144
Liabilities			
Current liabilities			
Trade and other payables	16	**(9,211)**	(8,239)
Bank loans	17	**(750)**	(750)
Total current liabilities		**(9,961)**	(8,989)
Non-current liabilities			
Deferred income tax liabilities	9	**(516)**	(683)
Trade and other payables		**(40)**	(42)
Bank loans	17	**(1,750)**	(2,500)
Other payables	18	**(179)**	(179)
Total non-current liabilities		**(2,485)**	(3,404)
Total liabilities		**(12,446)**	(12,393)
Net assets		**12,126**	9,751
Equity attributable to owners of the parent company			
Ordinary share capital	19	**1,462**	1,118
Share premium	19	**46,375**	41,554
Share based payment reserve	20	**1,139**	823
Translation reserves		**(2,037)**	(2,025)
Retained earnings		**(35,247)**	(32,192)
Equity attributable to shareholders of the Company		**11,692**	9,278
Non-controlling interests		**434**	473
Total equity		**12,126**	9,751

The notes on pages 47 to 69 are an integral part of these consolidated financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 14 March 2018 and signed on its behalf by:

Richard Petti,
Chief Executive Officer

Tim Gingell,
Chief Financial Officer

Ubisense Group plc
Registered Number: 05589712

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Loss before tax		**(3,134)**	(6,444)
Adjustments for:			
Depreciation	12	**417**	345
Amortisation and impairment	11	**2,435**	8,366
Adjustments to contingent consideration	8	**—**	(355)
Loss on the disposal of property, plant and equipment	8	**2**	24
Revaluation of intercompany balances		**252**	(1,877)
Share-based payments charge	20	**316**	(20)
Finance income	7	**(8)**	(44)
Finance costs	7	**87**	323
Operating cash flows before working capital movement		**367**	318
Change in inventories		**(395)**	1,751
Change in receivables		**2,678**	(3,941)
Change in payables		**987**	(743)
Cash used in operations before tax		**3,637**	(2,615)
Net income taxes (paid)/received		**(14)**	579
Net cash flows from operating activities		**3,623**	(2,036)
Cash flows from investing activities			
Payment of contingent consideration		**(197)**	—
Purchases of property, plant and equipment		**(140)**	(26)
Expenditure on intangible assets		**(1,813)**	(2,059)
Interest received		**8**	44
Net cash flows from investing activities		**(2,142)**	(2,041)
Cash flows from financing activities			
Repayment of borrowings		**(750)**	(2,373)
Interest paid		**(110)**	(352)
Proceeds from the issue of ordinary share capital		**5,165**	4,518
Net cash flows from financing activities		**4,305**	1,793
Net (decrease)/increase in cash and cash equivalents		**5,786**	(2,284)
Cash and cash equivalents at start of period		**3,498**	5,392
Exchange differences on cash and cash equivalents		**(170)**	390
Cash and cash equivalents at end of period	15	**9,114**	3,498

The notes on pages 47 to 69 are an integral part of these consolidated financial statements.

1 General information

Ubisense Group plc ("the Company") and its subsidiaries (together, "the Group") deliver Enterprise Location Intelligence solutions that enable customers with complex operations to track the precise location of assets across their business in real-time to deliver operational efficiencies, increase flexibility, quality, and reduce costs. We offer in-depth knowledge of the sectors in which we operate and have long-standing relationships with many of our customers across target markets including automotive, aerospace, communications and utilities.

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 at 31 December 2017, was 45 pence per share (31 December 2016: 41.5 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 its products and services mainly in North America, Europe and Asia. The Group legally consists of ten companies headed by Ubisense Group plc. A full list of subsidiaries is given in note 22 of the financial statements.

The consolidated financial statements have been approved for issue by the Board of Directors on 14 March 2018.

2 New accounting standards

For the purposes of the preparation of the 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 before 1 January 2017.

The accounting policies used are the same as set out in detail in the Report and Accounts 2016 and have been applied consistently to all periods presented in the financial statements. No new standards or amendments or interpretations to existing standards that became effective during the year were material to the Group. No new standards, amendments or interpretations to existing standards having an impact on the financial statements that have been published and that are mandatory for the Group's accounting periods beginning on or before 1 January 2018, or later periods, have been adopted early.

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.

- 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)
- IFRS 16 'Leases' (effective date financial year commencing on/after 1 January 2019)

IFRS 9

The Directors are of the opinion, that the application of IFRS 9 will not have a significant impact, other than increased disclosures, on the financial statements of the Group.

IFRS 15

IFRS 15 Revenue from Contracts with Customers will replace IAS 18 Revenue. The new standard is applicable from 1 January 2018. IFRS 15 introduces a number of new concepts and requirements relating to revenue recognition, and also provides guidance and clarification on existing practice.

For sales within the RTLS SmartSpace division, the Group contracts with customers to provide software, maintenance & support, hardware or services. The contractual arrangements may be to provide one of these elements on a standalone basis or to provide a combination of products and services. Currently, software licence revenue is recognised at the point the software is delivered to the customer, hardware is recognised on dispatch to the customer, maintenance and services are recognised over the term of the agreement on a straight line basis and installation and consultancy services are recognised as the service is performed.

For sales connected to the myWorld product, the Group contracts with customers to provide software, maintenance & support, or services. The contractual arrangements may be to provide one of these elements on a standalone basis or to provide a combination of the products and services. Currently, software licence revenue is recognised at the point the software is delivered to the customer provided that only configuration is required. Maintenance and service revenues are recognised over the term of the agreement on a straight line basis. Consultancy and customisation services are recognised as the service is performed.

The majority of Ubisense's sales are for products sold on a standalone basis and it is expected that the revenue recognition policy applied to these sales will be unaffected by the application of IFRS 15. Larger, more complex contracts, which involve multiple performance obligations that include a combination of products and services, are affected by the application of IFRS 15. Accordingly, the significance of the impact of IFRS 15 is dependent upon the timing of the delivery of performance obligations within complex contracts close to a financial reporting period end. The key area under review is the number of distinct performance obligations for sales which include a combination of some or all of the above products and services.

2 New accounting standards continued

IFRS 15 continued

Under IFRS 15, the Group must evaluate the performance obligations for the promised goods or services to identify whether the products and/or services are distinct. A promised good or service is distinct if both the customer benefits from the item either on its own or together with other readily available resources and it is separately identifiable from other promises in the contract (i.e. the Group does not provide a significant service integrating, modifying or customising it). The details of the performance obligations within complex contracts with a combination of goods and services is currently being assessed, and will be considered further to ensure an accurate conclusion is reached. The financial impact of the adoption of IFRS 15 will be disclosed within the interim results to 30 June 2018.

IFRS 16

IFRS 16 Leases will replace IAS 17 and three related interpretations. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability. The consolidated income statement will be impacted through reduced operating expenses, and higher depreciation and finance costs. The new standard is applicable from 1 January 2019 with an option to adopt it early. The Group intend to early adopt IFRS 16 from 1 January 2018 alongside IFRS 15 Revenue.

The Group leases all of the premises from which it conducts business with annual commitments under operating leases totalling £0.7 million. Application of IFRS 16 will result in the Group no longer recognising rental expense associated with the leased premises within operating expenses in the consolidated income statement. The Group will recognise a right-of-use asset in respect of the leasehold premises within the consolidated statement of financial position alongside a liability for the leasehold commitments, and depreciation and finance costs in the consolidated income statement. Accordingly, total assets will increase as will total liabilities. Additionally, the Group leases other assets including motor vehicles, however, the impact of application of IFRS 16 to these leases will not be material.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the 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 Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic report and Directors' report on pages 1 to 31.

In determining the basis for preparing the consolidated financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of the approval of the consolidated financial statements.

3 Summary of significant accounting policies continued

Going concern basis continued

The Group had cash of £9.1 million at the balance sheet date. As disclosed in note 17, the Group amended the terms of it's HSBC loan in November 2017, with covenants requiring £750,000 repayable on or before each of 31 December 2017 and 31 January 2018 and then £187,500 each quarter starting on 31 March 2019. The amended financial covenant on operating cash flow before working capital adjustments is £2 million negative in 2017, £2 million negative in 2018, £1 million negative in 2019 and £1 million positive from 2020 onwards. The balance of this facility as at 31 December 2017 was £2.5 million.

Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. The forecasts include assumptions regarding the opportunity funnel from both existing and new clients, growth plans, risks and mitigating actions. In particular, operating cashflow and profitability are highly sensitive to revenue mix and the positive contribution of continuing growth in software sales.

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

- The Group had cash, net of debt of £6.6 million as at 31 December 2017.
- It is not anticipated that the Group will breach the covenants of the existing working capital facility which are described in note 17.
- The Group has met the next repayment instalment of £0.75 million during January 2018 and no further capital repayments are due within the next 12 months.

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

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.

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.

3 Summary of significant accounting policies continued

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: RTLS SmartSpace 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, each division and central resources.

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 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 can include, for senior employees, a diluted EPS performance target or share price target. Equity-settled share-based payments are measured at fair value at the date of grant using an appropriate 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.

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 straight-line over the lease term. Rental income is presented within the Geospatial division within note 5.

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.

3 Summary of significant accounting policies continued

Operating lease income and expense continued

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 ongoing 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.

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.

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.

3 Summary of significant accounting policies continued

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 3 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. All acquired intangibles were fully amortised or impaired as at 31 December 2016 and 2017.

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 ten 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.

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.

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.

Retained earnings

Retained Earnings include all current and prior period retained profits/losses.

Non-controlling interests

Non-controlling interests, presented as part of equity, represent a proportion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the assets of the parent and the non-controlling interests based on their respective ownership interests.

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.

Capitalisation, amortisation and impairment 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 2017 is £2.7 million (2016: £3.3 million).

Capitalised development costs are amortised over a three years period which is management's estimate of the useful lives of current development projects. In reaching this conclusion, management have made assumptions in respect of future customer requirements and developments within the industry.

The Group tests capitalised development costs for impairment annually in accordance with the accounting policy stated in note 3. In performing the impairment review, management is required to make assumptions of the future cash flows generated from the SmartSpace and myWorld products. This includes consideration of both the current business pipeline and estimations beyond the existing pipeline.

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

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 2017 is £2.7 million (2016: £2.9 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.

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.

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

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

Costs incurred centrally or not directly attributable to either the RTLS or Geospatial divisions 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 2017	RTLS £'000	Geospatial £'000	Central £'000	Total £'000
Revenues	10,796	16,459	—	27,255
Cost of revenues	(6,310)	(10,088)	—	(16,398)
Gross profit	4,486	6,371	—	10,857
Sales and marketing costs	(3,062)	(2,004)	—	(5,066)
Contribution	1,424	4,367	—	5,791
Other operating costs			(5,426)	(5,426)
Adjusted EBITDA			(5,426)	365
Depreciation			(417)	(417)
Amortisation and impairment of intangibles			(2,435)	(2,435)
Share option expense			(316)	(316)
Unrealised foreign exchange gains/(losses) on intercompany trading balances			(252)	(252)
Non-recurring items			—	—
Operating loss			(8,846)	(3,055)
Net finance costs			(79)	(79)
Loss before tax			(8,925)	(3,134)
Income tax			61	61
Loss after tax	1,424	4,367	(8,864)	(3,073)

5 Segment information continued

5.1 Operating segments continued

Year ended 31 December 2016	RTLS £'000	Geospatial £'000	Central £'000	Total £'000
Revenues	9,113	17,410	—	26,523
Cost of revenues	(5,097)	(11,183)	—	(16,280)
Gross profit	4,016	6,227	—	10,243
Sales and marketing costs	(2,931)	(1,792)	(91)	(4,814)
Contribution	1,085	4,435	(91)	5,429
Other operating costs			(5,105)	(5,105)
Adjusted EBITDA			(5,196)	324
Depreciation			(345)	(345)
Amortisation and impairment of intangibles			(8,366)	(8,366)
Non-recurring items			2,222	2,222
Operating loss			(11,685)	(6,165)
Net finance costs			(279)	(279)
Loss before tax			(11,964)	(6,444)
Income tax			1,136	1,136
Loss after tax	1,085	4,435	(10,828)	(5,308)

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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
UK	**383**	365	**3,132**	3,940
France	**303**	313	**5**	3
Germany	**8,218**	6,456	**29**	106
Europe other	**554**	936	**—**	—
USA	**10,954**	12,325	**180**	183
Canada	**2,845**	1,664	**3**	—
Japan	**3,545**	4,328	**106**	129
Asia Pacific other	**187**	91	**—**	—
Rest of World	**266**	45	**—**	—
	27,255	26,523	**3,455**	4,361

5.3 Information about major customers

During 2017, the Group had two customers who generated revenues of greater than 10% of total revenue. £2.8 million was generated from a European customer and £3.2 million was generated from a US customer.

During 2016, the Group had two customers who generated revenues of greater than 10% of total revenue. £3.7 million was generated from a European customer and £3.4 million was generated from a US customer.

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	**2017 Number**	2016 Number	**2017 Number**	2016 Number
Technical consultants	**55**	59	**58**	64
Sales & marketing	**41**	38	**38**	42
Research & development	**20**	22	**20**	25
Administration	**22**	23	**23**	23
	138	142	**139**	154

By geography	**2017 Number**	2016 Number	**2017 Number**	2016 Number
United Kingdom	**41**	43	**41**	46
Europe	**20**	19	**21**	26
Americas	**48**	53	**49**	57
Asia	**29**	27	**28**	25
	138	142	**139**	154

6.2 Employee benefits

The aggregate employee benefit expense, including Executive Directors, comprised:

	Notes	**2017 £'000**	2016 £'000
Wages and salaries		**11,591**	12,392
Social security costs		**1,126**	1,162
Contributions to defined contribution pension arrangements		**584**	521
Share-based payments	20	**316**	(20)
Total aggregate employee benefits		**13,617**	14,055

Included in the wages and salaries figure above are termination benefits of £ nil (2016: £0.1 million) which are presented as non-recurring costs in the income statement – see note 8.2.

7 Finance income and costs

	2017 £'000	2016 £'000
Interest income from cash and cash equivalents	**8**	44
Finance income	**8**	44
Interest payable – bank	**(86)**	(302)
Interest payable – other	**(1)**	(21)
Finance costs	**(87)**	(323)
Net finance costs	**(79)**	(279)

8 Loss before tax: analysis of expenses by nature

8.1 Expenses by nature

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

	Notes	2017 £'000	2016 £'000
Amortisation and impairment of acquired intangible assets	11	—	1,223
Amortisation and impairment of other intangible assets	11	**2,435**	7,143
Depreciation of owned property, plant and equipment	12	**417**	345
Loss on disposal of property, plant and equipment		**2**	24
Operating lease rental charges – land and buildings		**648**	625
Operating lease rental charges – other		**94**	89
Inventory recognised as an expense		**2,408**	1,532
Research & development costs expensed		**457**	466
Net foreign currency (gains)/losses		**(102)**	(350)
Unrealised foreign exchange (gains)/losses on intercompany trading balances		**252**	(1,877)
Non-recurring items (excluding impairment of goodwill)	8.2	—	(345)
Auditors' remuneration	8.3	**157**	212

8.2 Non-recurring items

	2017 £'000	2016 £'000
Reorganisation costs	—	139
Adjustment to contingent consideration	—	(355)
Others	—	(129)
Total non-recurring items	—	(345)

During the year ended 31 December 2016, non-recurring items included £0.1 million reorganisation costs and a £0.4 million gain in respect of adjustments to contingent consideration.

8.3 Auditors' remuneration

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

	2017 £'000	2016 £'000
Fees payable to the Group's auditor for the audit of:		
Parent Company and consolidated financial statements	**39**	28
Financial statements of subsidiaries, pursuant to legislation	**72**	89
Interim reporting fees	**14**	15
Total audit fees	**125**	132
Fees payable to the Group's auditor for other services:		
Tax services	**30**	25
Other services	**2**	55
Total non-audit fees	**32**	80
Total auditors' remuneration	**157**	212

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

9 Income tax

9.1 Income tax recognised in the income statement

	2017 £'000	2016 £'000
Current tax		
UK corporation tax	—	—
Foreign tax	106	(2)
Research & development tax credits – prior years	—	(579)
Total current tax credit	106	(581)
Deferred tax		
Origination and reversal of temporary differences	(167)	(555)
Total deferred tax credit	(167)	(555)
Total income tax credit	(61)	(1,136)

The tax credit differs from the standard rate of corporation tax in the UK for the year of 19.3% (2016: 20.0%) for the following reasons:

	2017 £'000	2016 £'000
Loss before tax	(3,134)	(6,444)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 19.3% (2016: 20.0%)	(603)	(1,289)
Tax effects of:		
Expenses not deductible for tax purposes	129	780
Utilisation of previously unrecognised tax losses	(82)	(270)
Unrecognised deferred tax movements	429	450
Tax unprovided in prior years	106	—
Research & development tax credits – prior years	—	(579)
Difference on tax treatment of share options – unrecognised	60	(4)
Differential on overseas tax rates	(100)	(224)
Total income tax credit	(61)	(1,136)

9.2 Factors that may affect future tax charges

The Group has tax losses of £24.5 million (2016: £17.6 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 2020, the rate will further reduce to 18%. The deferred tax balances have been measured at 19%, the rate of realisation expected.

9.3 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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At 1 January	—	—	(683)	(1,157)
Deferred tax credited to the income statement	—	—	403	958
Deferred tax charged to the income statement	—	—	(236)	(403)
Foreign exchange movements	—	—	—	(81)
At 31 December	—	—	(516)	(683)

9 Income tax continued

9.3 Deferred tax continued

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

	2017 £'000	2016 £'000
Development costs capitalised	**(516)**	(669)
Other	**—**	(14)
Total deferred income tax liabilities	**(516)**	(683)

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:

	2017 £'000	2016 £'000
Tax losses carried forward	**5,637**	4,823
Equity-settled share options temporary differences	**19**	18
Total unrecognised deferred tax assets	**5,656**	4,841

10 Earnings per share (EPS)

	2017	2016
Earnings		
Earnings for the purposes of basic and diluted EPS being net loss attributable to equity holders of the parent company (£'000)	**(3,055)**	(5,196)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS ('000)	**58,479**	49,756
Effect of dilutive potential ordinary shares:		
– Share options ('000)	**215**	211
Weighted average number of ordinary shares for the purposes of diluted EPS ('000)	**58,694**	49,967
Basic EPS (pence)	**(5.2)**	(10.4)
Diluted EPS (pence)	**(5.2)**	(10.4)

Basic earnings per share is calculated by dividing profit/(loss) 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 and impairment of acquired intangible assets and goodwill, share-based payments charge, unrealised foreign exchange gains/(losses) on intercompany trading balances and non-recurring items from the measurement of profit for the period.

	Notes	2017	2016
Earnings for the purposes of diluted EPS being net loss attributable to equity holders of the parent company (£'000)		**(3,055)**	(5,196)
Adjustments:			
Amortisation and impairment of acquired intangible assets (£'000)	8, 11	**—**	1,223
Impairment of goodwill (£'000)	8, 11	**—**	4,271
Reversal of share-based payments charge (£'000)	20	**316**	(20)
Unrealised foreign exchange gains/(losses) on intercompany trading balances		**252**	(1,877)
Reversal of non-recurring items (£'000)	8	**—**	(345)
Net adjustments (£'000)		**568**	3,252
Adjusted earnings (£'000)		**(2,487)**	(1,944)
Adjusted diluted EPS (pence)		**(4.3)**	(3.9)

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

11 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 2016	8,314	1,900	563	12,405	1,300	24,482
Exchange difference	491	340	87	—	150	1,068
Additions	—	—	—	1,948	111	2,059
Disposals	—	—	—	—	(315)	(315)
At 31 December 2016	8,805	2,240	650	14,353	1,246	27,294
Exchange difference	—	—	—	—	(69)	(69)
Additions	—	—	—	1,583	230	1,813
At 31 December 2017	**8,805**	**2,240**	**650**	**15,936**	**1,407**	**29,038**
Accumulated amortisation						
At 1 January 2016	(4,043)	(1,018)	(449)	(8,425)	(761)	(14,696)
Effects of movement in exchange rates	(491)	(134)	(66)	—	(240)	(931)
Charge for the year	—	(119)	(135)	(2,585)	(287)	(3,126)
Elimination on disposal	—	—	—	—	315	315
Impairment for the year	(4,271)	(969)	—	—	—	(5,240)
At 31 December 2016	(8,805)	(2,240)	(650)	(11,010)	(973)	(23,678)
Effects of movement in exchange rates	—	—	—	—	37	37
Charge for the year	—	—	—	(2,210)	(225)	(2,435)
At 31 December 2017	**(8,805)**	**(2,240)**	**(650)**	**(13,220)**	**(1,161)**	**(26,076)**
Net book amount						
At 31 December 2017	**—**	**—**	**—**	**2,716**	**246**	**2,962**
At 31 December 2016	—	—	—	3,343	273	3,616

Capitalised product development costs relate to expenditure that can be applied to a plan or design for the production of new or substantial improvements to SmartSpace and myWorld products. The Group is loss making and this is an indicator for potential impairment of development costs. Management have completed impairment reviews through estimating the future discounted cash flows to be generated from these assets and concluded that no impairment is required as the cash flows exceeded the carrying value of the asset.

The remaining average amortisation period for capitalised product development costs is 2 years.

The software assets represent assets purchased from third parties.

12 Property, plant and equipment

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2016	786	1,117	1,903
Effect of movements in exchange rates	88	211	299
Additions	7	19	26
Disposals	(47)	(131)	(178)
At 31 December 2016	834	1,216	2,050
Effect of movements in exchange rates	(9)	(19)	(28)
Additions	30	110	140
Disposals	(122)	(15)	(137)
At 31 December 2017	**733**	**1,292**	**2,025**
Accumulated depreciation			
At 1 January 2016	(149)	(811)	(960)
Effect of movements in exchange rates	10	(164)	(154)
Charge for the year	(197)	(148)	(345)
Elimination on disposals	41	113	154
At 31 December 2016	(295)	(1,010)	(1,305)
Effect of movements in exchange rates	3	52	55
Charge for the year	(221)	(196)	(417)
Elimination on disposals	122	13	135
At 31 December 2017	**(391)**	**(1,141)**	**(1,532)**
Net book amount			
At 31 December 2017	**342**	**151**	**493**
At 31 December 2016	539	206	745

13 Inventories

	2017 £'000	2016 £'000
Raw materials	**414**	412
Finished goods	**1,045**	652
Total inventories	**1,459**	1,064

The Group's inventories are comprised of products which are not generally subject to rapid obsolescence on account of deterioration in condition, market trends or technological reasons. The balance as at 31 December 2017 includes a £0.6 million impairment provision (2016: £0.4 million).

14 Trade and other receivables

	Notes	**2017 £'000**	2016 £'000
Trade receivables, gross		**7,663**	11,304
Allowances for doubtful debts	14.1	**(1,460)**	(2,151)
Trade receivables, net	14.2	**6,203**	9,153
Amounts recoverable on contracts		**2,666**	2,912
Other receivables		**275**	220
Prepayments		**933**	933
Corporation tax recoverable		**4**	3
VAT and taxation receivable		**463**	—
Total trade and other receivables		**10,544**	13,221

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 that 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.

14 Trade and other receivables continued

14.1 Movement in allowance for doubtful debts

	2017 £'000	2016 £'000
At 1 January	**(2,151)**	(1,691)
Exchange differences	**50**	(158)
Amounts recovered in the year	**519**	6
Amounts written off in the year	**217**	—
Allowance released	**30**	—
Allowance made	**(125)**	(308)
At 31 December	**(1,460)**	(2,151)

As at 31 December 2017, the allowance for doubtful debts includes £1,326,000 (2016: £2,065,000) in respect of amounts owed by two entities in the Asia Pacific region. Provision was made in 2015 against these balances as their recoverability is uncertain.

14.2 Ageing of past due but not impaired receivables

	2017 £'000	2016 £'000
Neither past due nor impaired	**4,784**	7,179
Past due but not impaired:		
0 to 90 days overdue	**1,084**	1,227
More than 90 days overdue	**335**	747
Total	**6,203**	9,153

15 Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	**9,114**	3,498
Cash and cash equivalents	**9,114**	3,498

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:

By currency	2017 £'000	2016 £'000
British Pound (GBP)	**4,474**	320
Euro (EUR)	**1,829**	675
US Dollar (USD)	**1,693**	1,947
Japanese Yen (JPY)	**480**	335
Canadian Dollar (CAD)	**638**	221
Cash and cash equivalents	**9,114**	3,498

16 Trade and other payables

	2017 £'000	2016 £'000
Deferred income	**2,386**	2,279
Trade payables	**3,040**	1,549
Trade accruals	**2,840**	2,919
Current tax liability	**101**	—
Other taxation and social security	**768**	1,223
Contingent consideration	**—**	197
Other payables	**76**	72
Total trade and other payables	**9,211**	8,239

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

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, which was settled in full during 2017.

17 Bank loans

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

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

The covenants require future repayments of £750,000 before 31 January 2018 and then £187,500 each quarter starting on 31 March 2019.

18 Other payables

	2017 £'000	2016 £'000
Property provisions	**179**	179
Total other payables	**179**	179

The property provision is a dilapidation provision to restore leased offices to their original state. Part of this provision is expected to be used in 2018 with the remainder expected to be utilised in 2027.

19 Share capital and premium

	Number of ordinary shares of £0.02 each	Share capital £'000	Share premium £'000	Total £'000
Balance at 1 January 2016	36,620,247	732	37,422	38,154
Issued under share-based payment plans	32,907	1	4	5
Issued on placing to institutional shareholders	19,230,000	385	4,128	4,513
Change in year	19,262,907	386	4,132	4,518
Balance at 31 December 2016	55,883,154	1,118	41,554	42,672
Issued under share-based payment plans	17,250	—	2	2
Issued on placing to institutional shareholders	17,187,500	344	4,819	5,163
Change in year	17,204,750	344	4,821	5,165
Balance at 31 December 2017	**73,087,904**	**1,462**	**46,375**	**47,837**

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

During the period, the Company issued 17,204,750 shares, increasing the total number of shares in issue from 55,883,154 to 73,087,904 as follows:

- 17,187,500 shares at £0.32 per share for a total gross consideration of £5,500,000 with share issue costs of £337,000 written off against share premium; and
- 17,250 shares as a result of options exercised with a weighted average exercise price of £0.14 per share for total cash consideration of £2,415.

20 Share-based payments: options

20.1 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.

Other than the December 2016 share option plan set out in note 20.4, 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 ten years from the date of grant after which they expire if unexercised.

20.2 Analysis of amounts recognised in the financial statements

(a) Analysis of amounts recognised in the consolidated income statement

	2017 £'000	2016 £'000
Total share-based payments charge recognised in operating profit	**316**	(20)

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

	2017 £'000	2016 £'000
Net share-based payments credit recognised in equity	**316**	(52)

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

	2017 £'000	2016 £'000
Cumulative reserve credit for share-based payments	**1,139**	823

20.3 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 Jan 2017 Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Awards outstanding at 31 Dec 2017 Number	Awards exercisable at 31 Dec 2017 Number
Options	2010	2011 – 13	2020	0.140	349,728	—	(17,250)	(9,806)	322,672	322,672
	2011	2012 – 14	2021	1.050	114,200	—	—	(5,500)	108,700	108,700
	2012	2013 – 15	2022	2.125	91,000	—	—	(15,500)	75,500	75,500
	2013	2014 – 16	2023	2.055	108,800	—	—	(15,200)	93,600	93,600
	2014	2015 – 17	2024	2.250	70,000	—	—	(5,000)	65,000	65,000
	2016	2017 – 19	2026	0.020	5,600,000	—	—	—	5,600,000	—
Total					**6,333,728**	**—**	**(17,250)**	**(51,006)**	**6,265,472**	**665,472**
Weighted average exercise price (£)					0.135	—	0.140	1.619	0.123	0.989

20.4 Principal assumptions

On 14 December 2016 Ubisense Group plc implemented a new long-term incentive share option plan for Executive Directors and key management. Ubisense Group plc granted 5,600,000 options of two pence each in the Company with an exercise price set at the nominal value. The options vest if the Company's share price exceeds 70p for 60 consecutive calendar days between the 2nd and 3rd anniversary of issue and the period of employment continues for over three years. No charge had been recognised in the 2016 financial statements in respect of these share options granted and the Directors had assessed the impact on the 2016 financial statements to be immaterial.

The share options were valued using a Monte Carlo valuation model during 2017. The expected life is the expected period from grant to exercise based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. The risk-free return is an average yield on the zero-coupon UK Government Bond in issue at the date of grant with a similar life to the option. Volatility is estimated at the grant date based on the historical daily share price movements of the company over a four-year period.

20 Share-based payments: options continued

20.4 Principal assumptions continued

The following assumptions were used in the model for options granted:

Instrument	Option
Number granted	5,600,000
Grant date	14 Dec 2016
Share price at grant date (£)	0.41
Exercise price (£)	0.02
Fair value per option (£)	0.17
Expected life (years)	4
Expected volatility (%)	45.00
Risk-free interest rate (%)	0.45
Expected dividends expressed as a dividend yield (%)	—

In the 2017 financial statements a charge of £316,000 has been recognised in respect of share options granted on 14 December 2016 to Executive Directors and key management.

21 Operating lease commitments

Leases as lessee

On 22 December 2017, Ubisense entered into a new ten year lease arrangement in respect of it's UK head office reducing the space from 13,981 to 7,552 sq ft.

At 31 December 2017, 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 8.1. 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	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
No later than one year	**681**	664	**94**	53
Later than one year and no later than five years	**1,513**	2,267	**10**	40
Later than five years	**982**	527	**—**	—
Total	**3,176**	3,458	**104**	93

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 2017. The expected charge in 2018 for operating leases is expected to be £44,000 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 received income of £45,000.

The Group has guaranteed rent bonds issued by its banks on its behalf totalling £128,000 as at 31 December 2017 (2016: £122,000). These are not expected to result in any material financial loss.

22 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 (%)	Registered office
Ubisense Limited	UK	Location solutions	100	—	St Andrew's House, St Andrew's Road, Chesterton, Cambridge, CB4 1DL, UK
Ubisense GmbH	Germany	Location solutions	100	—	Franz-Rennefeld-Weg 6, 40472 Düsseldorf, Germany
Ubisense SAS	France	Location solutions	100	—	52 Boulevard de Sébastopol, 75003 Paris, France
Ubisense Inc.	US	Location solutions	100	—	999 18th Street, Suite 901, Denver, CO 80202, United States
Ubisense Solutions Inc.	Canada	Location solutions	100	—	250 Howe Street, Suite 1400, Vancouver, BC V6C3S7
Geospatial Systems Limited	UK	Non —trading	100	—	St Andrew's House, St Andrew's Road, Chesterton, Cambridge, CB4 1DL, UK
Ubisense Inc.	Japan	Intermediate holding company	100	—	2nd Floor, Hongo TK Bldg. 1-28-10 Hongo Bunkyo-ku, Tokyo 113-0033, Japan
Geoplan Company Limited*	Japan	Location solutions	77	23	2nd Floor, Hongo TK Bldg. 1-28-10 Hongo Bunkyo-ku, Tokyo 113-0033, Japan
Binary Star Developments K.K.*	Japan	Non —trading	100	—	2nd Floor, Hongo TK Bldg. 1-28-10 Hongo Bunkyo-ku, Tokyo 113-0033, Japan

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 Binary Star Developments K.K. which prepares accounts 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.

23 Related party transactions

23.1 Remuneration of key personnel

The key management have been assessed to be the Directors of the Group (Executive and Non-Executive) during the 2017 and 2016 period.

During the year, there was an average number of 7 key management personnel (2016: 6) and 7 personnel at 31 December 2017 (2016: 7). The compensation paid or payable to key management for employee services is shown below:

	2017 £'000	2016 £'000
Short-term employee benefits		
Wages and salaries	**635**	572
Social security costs	**71**	48
Other benefits	**4**	1
	710	621
Post-employment benefits		
Contributions to defined contribution pension arrangements	**56**	22
Share-based payments		
Equity-settled share-based payments	**178**	—
Total key management compensation	**944**	643

Included in the wages and salaries figure above are termination benefits of £nil (2016: £149,000) which are presented as non-recurring costs in the income statement.

23.2 Transactions with the group related parties

There were no other related party transactions with Directors of the Company during 2017 or 2016 other than acquisition of shares described within the Director's Report.

24 Financial risk management

24.1 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 within note 24.8. 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.

24.2 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.

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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Assets	**—**	—	**142**	509	**194**	201
Liabilities	**—**	—	**—**	(7)	**(2)**	—

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

24.3 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 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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Effect of a 5% appreciation of the local currency:						
Income statement	**41**	(25)	**179**	31	**164**	3
Equity	**41**	(25)	**179**	31	**164**	3
Effect of a 5% depreciation of the local currency:						
Income statement	**(37)**	25	**(162)**	(31)	**(148)**	(3)
Equity	**(37)**	25	**(162)**	(31)	**(148)**	(3)

Exposure to foreign currency exchange rates varies 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.

24.4 Interest rate sensitivity

The Group's exposure to interest rate risk relates primarily to the Group's variable rate bank loan facility which is partially offset by cash held at variable rates. Interest is payable at LIBOR plus 3% on the £2.5 million outstanding at 31 December 2017 (2016: £3.25 million).

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.

	2017 £'000	2016 £'000
Effect of a 0.5% decrease in interest rate on:		
Income statement	**17**	24
Equity	**17**	24
Effect of a 0.5% increase in interest rate on:		
Income statement	**(17)**	(24)
Equity	**(17)**	(24)

24 Financial risk management continued

24.5 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 24.8, 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 2017, one customer individually accounted for more than 14% of the gross trade receivables balance (31 December 2016: more than 10%).

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

Details of certain trade receivables at 31 December 2017 that have not been settled by the contractual due date but are not considered to be impaired are included in note 14.2.

24.6 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 17, the Group has total bank loan facilities of £2.5 million, of which £2.5 million was drawn down at 31 December 2017 (2016: £3.25 million facility, £3.25 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 2017 (see note 14) exceed the current cash outflow requirements.

As at 31 December 2017, 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 2017				
Trade and other payables	9,211	—	40	—
Bank loan	750	—	1,750	—
Other payables	—	—	—	179
As at 31 December 2016				
Trade and other payables	7,763	476	42	—
Bank loan		750	2,500	—
Other payables	—	—	—	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.

24 Financial risk management continued

24.7 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while 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 2017 of £2.5 million (31 December 2016: £3.25 million) all dominated in GBP.

24.8 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	2017 £'000	2016 £'000
Financial assets			
Loans and receivables:			
– Trade receivables	14	**6,203**	9,153
– Amounts recoverable on contracts	14	**2,666**	2,912
– Other receivables	14	**275**	223
– Cash and cash equivalents	15	**9,114**	3,498
Total financial assets		**18,258**	15,786
Financial liabilities			
Amortised cost:			
– Trade payables	16	**3,040**	1,549
– Trade accruals	16	**2,840**	2,919
– Other payables	16	**116**	114
– Provisions	18	**179**	179
– Bank loans	17	**2,500**	3,250
Fair value:			
– Contingent consideration	16	**—**	197
Total financial liabilities		**8,675**	8,208

25 Post balance sheet events

On 6 March, Ubisense Group plc entered into agreements to carve out the third party geospatial services business of its Japanese subsidiary, Geoplan Company Limited. Under the terms of the agreement customer relationships, the Geoplan brand name, fixed assets including certain market specific products, stock and 13 employees will be transferred to a new company, with the new company being sold for a consideration of JPY 100 million (approximately £0.7 million). The assets being sold have an immaterial carrying value within the consolidated statement of financial position as at 31 December 2017.

The agreed completion date of the transaction is 30 March 2018.

Alongside this transaction, Ubisense has agreed, subject to contract completion, to acquire the 23% minority interest of Geoplan Company Limited. The acquisition of this minority interest will give the group 100% ownership of its remaining Japanese operations. Geoplan Company Limited will be renamed Ubisense Japan K.K.

These transactions are consistent with Ubisense's strategy of refocusing the Group on growing revenues from its own IP whilst managing the reduction in third party geospatial services revenues.

COMPANY BALANCE SHEET

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Investments in subsidiaries	3	**9,808**	9,639
Current assets			
Debtors	4	**11,248**	11,874
Cash at bank and in hand		**10**	10
		11,258	11,884
Creditors – amounts falling due within one year	5	**(557)**	(5,939)
Net current assets		**10,701**	5,945
Total assets less current liabilities		**20,509**	15,584
Net assets		**20,509**	15,584
Capital and reserves			
Called-up share capital	6	**1,462**	1,118
Share premium account	7	**46,375**	41,554
Share-based payment reserve	7	**1,139**	823
Profit and loss reserve	7	**(28,467)**	(27,911)
Equity shareholders' funds		**20,509**	15,584

The notes on pages 72 to 74 are an integral part of the Company financial statements.

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 2017 of £556,000 (2016: £3,790,000).

The financial statements were approved and authorised for issue by the Board of Directors on 14 March 2018 and signed on its behalf by:

Richard Petti,
Chief Executive Officer

Tim Gingell,
Chief Financial Officer

Ubisense Group plc
Registered Number: 05589712

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity shareholders				
	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained earnings £'000	**Total £'000**
Balance at 1 January 2016	732	37,422	875	(24,121)	**14,908**
Total comprehensive loss for the year	—	—	—	(3,790)	**(3,790)**
Reserve credit for equity-settled share-based payment	—	—	(52)	—	**(52)**
Issue of new share capital	386	—	—	—	**386**
Premium on new share capital	—	4,427	—	—	**4,427**
Share issue costs	—	(295)	—	—	**(295)**
Transactions with owners	386	4,132	(52)	(3,790)	**676**
Balance at 31 December 2016	1,118	41,554	823	(27,911)	**15,584**
Total comprehensive loss for the year	—	—	—	(556)	**(556)**
Reserve credit for equity-settled share-based payment	—	—	316	—	**316**
Issue of new share capital	344	—	—	—	**344**
Premium on new share capital	—	5,158	—	—	**5,158**
Share issue costs	—	(337)	—	—	**(337)**
Transactions with owners	344	4,821	316	(556)	**4,925**
Balance at 31 December 2017	**1,462**	**46,375**	**1,139**	**(28,467)**	**20,509**

The notes on pages 72 to 74 are an integral part of the Company financial statements.

1 Principal accounting policies

Basis of preparation

The financial statements of Ubisense Group plc have been prepared in compliance with United Kingdom accounting standards, including Financial Reporting Standard 102 ("FRS 102") and the Companies Act 2006. A summary of the significant accounting policies which have been reviewed by the Board of Directors is set out below.

The financial statements are prepared under the historical cost convention.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102, as it is a qualifying entity and its financial statements are included in the consolidated financial statements of Ubisense Group plc.

- The requirements of Section 4 Statement of Financial Position 4.12(a)(iv);
- The requirements of Section 7 Statement of Cash Flows;
- The requirements of Section 3 Financial Statement Presentation paragraph 3;
- The requirements of financial instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.47, 11.48(a)(iii), 11.48(iv), 11.48(b) and 11.48(c); and
- The requirements of Section 33 Related Party Disclosures paragraph 33.7.

The company has taken advantage of the exemption under FRS102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated financial statements of Ubisense Group includes the Company's cash flows.

Share-based payments

The Company issues equity-settled share-based payments to certain employees of its subsidiaries. Vesting conditions are continuing employment and can include, for senior employees, a diluted EPS performance target or share price target. Equity-settled share-based payments are measured at fair value at the date of grant using an appropriate pricing model. 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. Information on share options which have been granted to Directors and employees are given in note 20 to the consolidated financial statements.

Investments in subsidiaries

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

Debtors

Short-term debtors are measured at transaction price, less impairment. Loans receivable are measured subsequently at amortised cost using the effective interest method less any impairment.

Creditors

Short-term trade creditors are measured at transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate.

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.

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.

The Group is loss making and this is an indicator for potential impairment of the investments in the trading subsidiaries of Ubisense Group plc. In undertaking impairment reviews, management is required to make assumptions of the future cash flows generated from its subsidiaries. This includes consideration of both the current business pipeline and estimations beyond the existing pipeline.

2 Profit and loss account

The Company does not have any employees (2016: nil). Directors' emoluments are disclosed in note 23 of the consolidated financial statements. The Directors were not remunerated by the Parent Company.

Auditors remuneration attributable to the Company is as follows:

	2017 £'000	2016 £'000
Audit fee – statutory audit	**39**	28
Other services	**2**	2
	41	30

3 Investments in subsidiaries

	Investments in subsidiaries £'000
Cost and net book amount	
At 1 January 2017	9,639
Capital contribution relating to share-based payments	268
Impairment	(99)
At 31 December 2017	**9,808**

Capital contribution and impairment

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

Capital contributions made to investments impaired in prior periods were immediately impaired.

The carrying value of investments in subsidiaries relates to investments in Ubisense Limited and Ubisense Inc., which is the parent company of Geoplan Company Limited. The Group is loss making and this is an indicator for potential impairment of its investments. Management have completed impairment reviews through estimating the future discounted cashflows to be generated from these assets and concluded that no impairment is required as the cash flows exceeded the value of the investment. In reaching this conclusion, management have considered the sale of the third party geospatial services business of Geoplan Company Limited which is disclosed in note 9.

Further information about subsidiaries is provided in note 22 of the consolidated financial statements.

4 Debtors

	2017 £'000	2016 £'000
Amounts owed by subsidiary undertakings	**11,248**	11,874
	11,248	11,874

Included within amounts owed by subsidiary undertakings is a balance of £1.1 million (2016: £1.1 million) due after one year. Interest is charged at a rate of 3% on the balance owed.

Amounts owed by subsidiary undertakings are unsecured.

5 Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade accruals	**24**	24
Amounts owed to subsidiary undertakings	**533**	5,915
	557	5,939

6 Share capital

	2017 Number	2016 Number	2017 £'000	2016 £'000
Allotted, called up and fully paid				
Ordinary shares of £0.02 each	**73,087,904**	55,883,154	**1,462**	1,118

A description of the movements in share capital in the year is given in note 19 of the consolidated financial statements.

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7 Reserves

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.

Retained earnings

Retained Earnings include all current and prior period retained profits/losses.

8 Related party transactions

The Company takes advantage of the exemption under FRS102 for transactions with wholly owned group companies. There were no other related party transactions, other than the issue of shares to certain directors detailed within the Directors report.

9 Post balance sheet events

On 6 March, Ubisense Group plc entered into agreements to carve out the third party geospatial services business of its Japanese subsidiary, Geoplan Company Limited. Under the terms of the agreement customer relationships, the Geoplan brand name, fixed assets including certain market specific products, stock and 13 employees will be transferred to a new company, with the new company being sold for a consideration of JPY 100 million (approximately £0.7 million). The assets being sold have an immaterial carrying value within the consolidated statement of financial position as at 31 December 2017.

The agreed completion date of the transaction is 30 March 2018.

Alongside this transaction, Ubisense has agreed, subject to contract completion, to acquire the 23% minority interest of Geoplan Company Limited. The acquisition of this minority interest will give the group 100% ownership of its remaining Japanese operations. Geoplan Company Limited will be renamed Ubisense Japan K.K.

These transactions are consistent with Ubisense's strategy of refocusing the Group on growing revenues from its own IP whilst managing the reduction in third party geospatial services revenues.

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