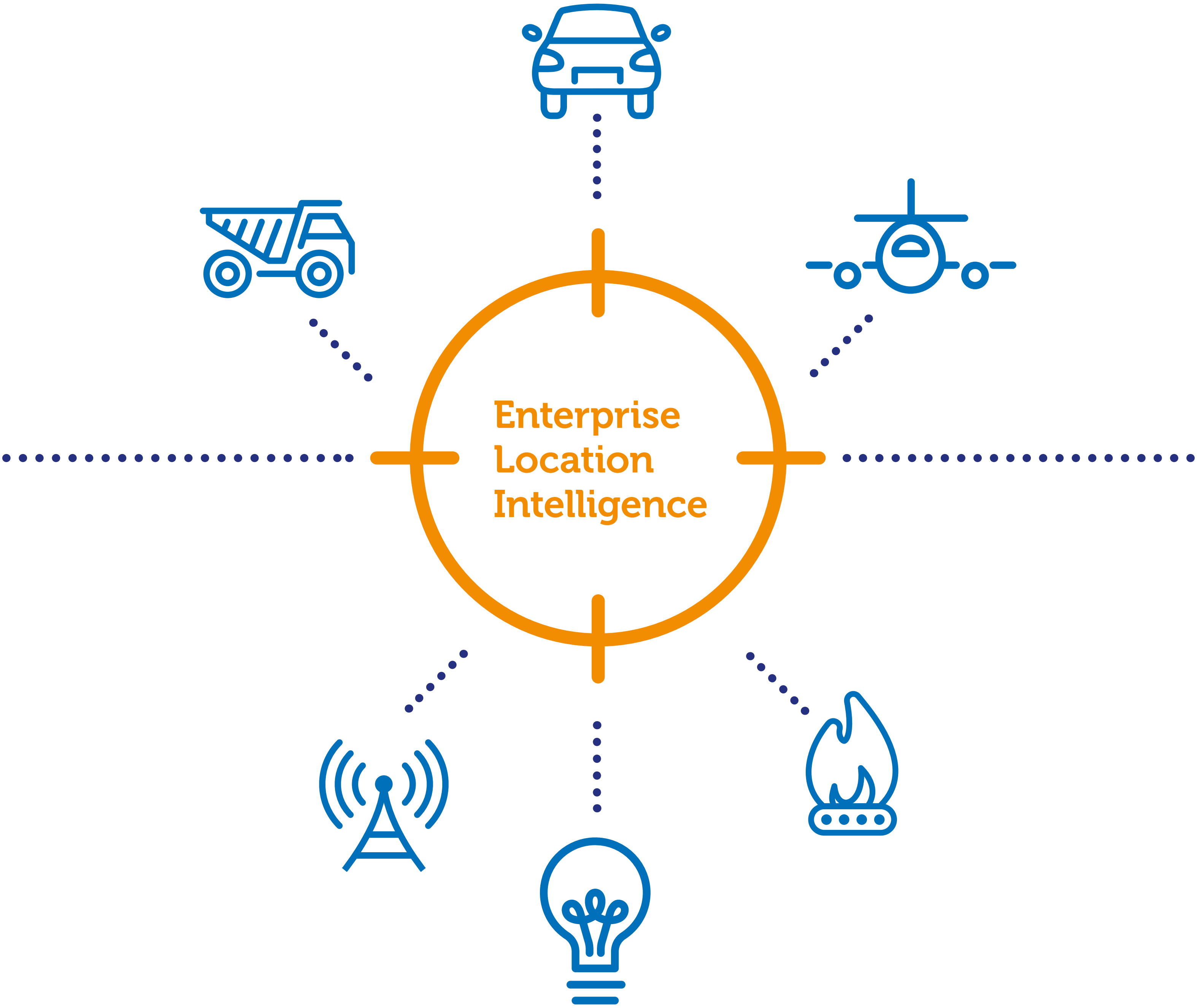
Ubisense

Ubisense Group plc Annual Report 2016



Ubisense is a global leader in Enterprise Location Intelligence Solutions

Ubisense Enterprise Location Intelligence Solutions enable customers with complex operations to track the precise location of assets across their business in real-time, delivering efficiencies, increasing flexibility and quality, and reducing 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, logistics, communications and utilities.

Strategic report

Corporate governance

Financial statements

Strategic highlights

- **2016:** Strong progress was demonstrated in terms of revenue growth, margins, cost management and order book.
- **Organisation:** Restructured and strengthened the organisation, appointing Richard Petti as CEO and Tim Gingell as CFO.
- **RTLS customer wins:** Important RTLS customer wins in automotive manufacturing including a worldwide corporate software licence, together with installations at multiple customer locations.
- **Geospatial customer wins:** Announced in March 2016, $3 million of new contracts for managed services were sold alongside additional myWorld licence extensions with key customers.
- **RTLS product development:** Re-defined the enterprise software platform to address Industry 4.0 and emerging opportunities for Industrial Internet of Things ("IIoT") applications.
- **Geospatial product development:** New myWorld product launches have extended enterprise geomobility to GIS data via iOS, Android and Windows operating systems in line with our "Any data, Anywhere, Any device" strategy.
- **Partner development:** Appointed a new partner for delivery and support of key RTLS customers – enhanced further with a Value Added Reseller (VAR) relationship. For the Geospatial business, a new partner was appointed in Q4 and made an early sale of myWorld to a large communications company in North America.

Financial highlights

- Revenue increased 21% to £26.5 million (2015: £22.0 million) led by growth in software revenue.
- Order book as at 31 December 2016 of £12.6 million (2015: £9.6 million).
- Gross margin increased to 39% (2015: 35%) due to improved software revenue mix and focus on cost management.
- Adjusted EBITDA of £0.3 million (2015: £5.2 million loss) reflecting increased gross profit and the efficient management of our cost base.
- Operating loss reduced to £6.2 million (2015: £17.0 million) due to improved trading performance and non-recurring income.
- £4.8 million (gross) raised from shareholders in April 2016, stabilising the balance sheet.
- Cash balance of £3.5 million (2015: £5.4 million) and net cash of £0.2 million (2015: net debt of £0.2 million).

Executive Chairman's statement

How we've performed

"I am pleased to report that, following the restructuring of the Group, we have made good progress in terms of revenue growth, margins, cost management and order book. The business is now operating at a significantly reduced cost run-rate from that of 2015 and so our increased revenues during the period have delivered an adjusted EBITDA profit."

Peter Harverson
Executive Chairman

We have refocused our sales effort and development of the two product portfolios – our Real-Time Location System (RTLS) and myWorld geomobility enterprise software platforms.

We demonstrated our first success in signing a global licence agreement for our RTLS enterprise software platform with a major automotive manufacturer, which will become the cornerstone of their vision of a paperless factory, leading to improved production flexibility, increased productivity and higher product quality.

Our myWorld geomobility enterprise software platform also gained excellent references within the telecoms and utility sectors. Demonstrating productivity gains and enabling cost reductions, it has delivered a new level of connected mobility and visualisation of GIS data to our customers' field operations.

Reflections on 2016

Going into 2016 we had executed a major cost reduction programme resulting in substantial reductions in headcount across the business. We used this opportunity to review the productivity and direction of our two core divisions – RTLS solutions and Geospatial's myWorld geomobility enterprise platform with its attached services.

Historically, the RTLS business has been driven by the hardware element of the solution and the myWorld platform hidden to some extent by the wider range of GIS services delivered by the Geospatial business. The Company has consistently made investments in both platforms over a number of years, but has not succeeded in maximising value creation for the business. Therefore, a new emphasis has been given to focus on the platform capability and benefit it can deliver for our customers, leading to a new segmentation of the RTLS platform (currently termed SmartSpace) and the launch of geomobility enhancing myWorld product releases.

Europe

We increased our momentum in Europe with a major win for our RTLS enterprise location software platform to the automotive sector, as well as a number of hardware deployments for that customer which we expect to extend to additional sites worldwide. We also closed another significant RTLS solution sale with the expectation of additional orders to expand it into our largest single site deployment. In Central Europe, we also agreed an important partner relationship to support and deliver installation services to our customers in the region.

North America

We continued our investment in North America and although sales cycles have been longer than anticipated, we believe this is an important territory for both divisions. We have some excellent customer relationships, with significant deployments in production or being expanded, including a large agricultural equipment manufacturer for RTLS and leading telecommunication services businesses for Geospatial. We also appointed a new partner, Frontier Geotek, and made an early sale of myWorld licences to a major telecoms operator.

Japan

I am pleased to report that our RTLS business grew by 25% from partners including Meiji Denki, as well as new customers in the automotive industry such as Vuteq. The Japan business was acquired at the end of 2013 with a 3 year growth plan, built on the existing GIS services business. At the end of 3 years, a review of the business acknowledged that while the business showed early signs of progression, anticipated growth had not matched expectations, and the Board has decided to take a further impairment charge against the goodwill and customer intangibles established at the time of acquisition. The Company also disposed of a small CAD business to improve productivity.

Board of Directors

In May this year, Richard Green stepped down as CEO after 14 years in the role and I'd like to thank him for his contribution. While we searched for a replacement, my remit was expanded from Non-Executive Chairman to Executive Chairman, taking on responsibility for the management and operations of the Company. I am pleased to welcome Richard Petti to the Board, who was appointed as Chief Executive Officer in December, and I anticipate resuming a Non-Executive Chairman position in the first half of 2017.

Recognising the support and significant interest of our lead investor Kestrel, Oliver Scott was invited to join the Board in May 2016.

In August 2016, we appointed Tim Gingell as Chief Financial Officer and member of the Board. Tim has worked at Ubisense since February 2015, and since June 2015 as Interim Chief Financial Officer and Company Secretary.

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 widely adopted, and supported, globally. We therefore always act in a socially responsible manner, taking into account relevant social and environmental factors to facilitate creating tangible value for all our employees, customers, shareholders and communities.

During 2016, we introduced a charity day, for employees to take time off to support their charity of choice as well as organising local fundraising events. We collaborated with local and national organisations to engage interns, industrial placements, apprenticeships and mentoring schemes, as well as being members of local networks and clubs.

Outlook

The market opportunity for the Company is excellent, with both our software platforms demonstrating measurable return on investment for our customers. However, the Company is in a recovery phase and we continue to be prudent in managing our operating costs in line with the near term revenue opportunity.

We will look to build on our successes in the RTLS business, delivering on deals signed in 2016 and targeting new opportunities in existing markets and new verticals, while developing our partner business.

Looking forward on the Geospatial business, we see an excellent opportunity for the myWorld geomobility platform and its valuable attached services. However, we anticipate that the historic GIS services will show some decline in both revenues and potentially margin. The highly specialist skills required to deliver myWorld services have been built on our long history of working with customers' GIS databases, and this transition will continue, leading to an expected improvement in margins and better penetration of our current and future customer base. On this basis, we fully expect some older GIS consultancy services contracts not to renew and the associated revenue stream to begin to decline through 2017 and 2018, which we will look to offset with higher margin myWorld software sales and related services.

Under the management of our newly appointed CEO, Richard Petti, we will continue to focus on productivity of the organisation, with the objective of building a first-class enterprise and support offering, alongside an enhanced partner programme.

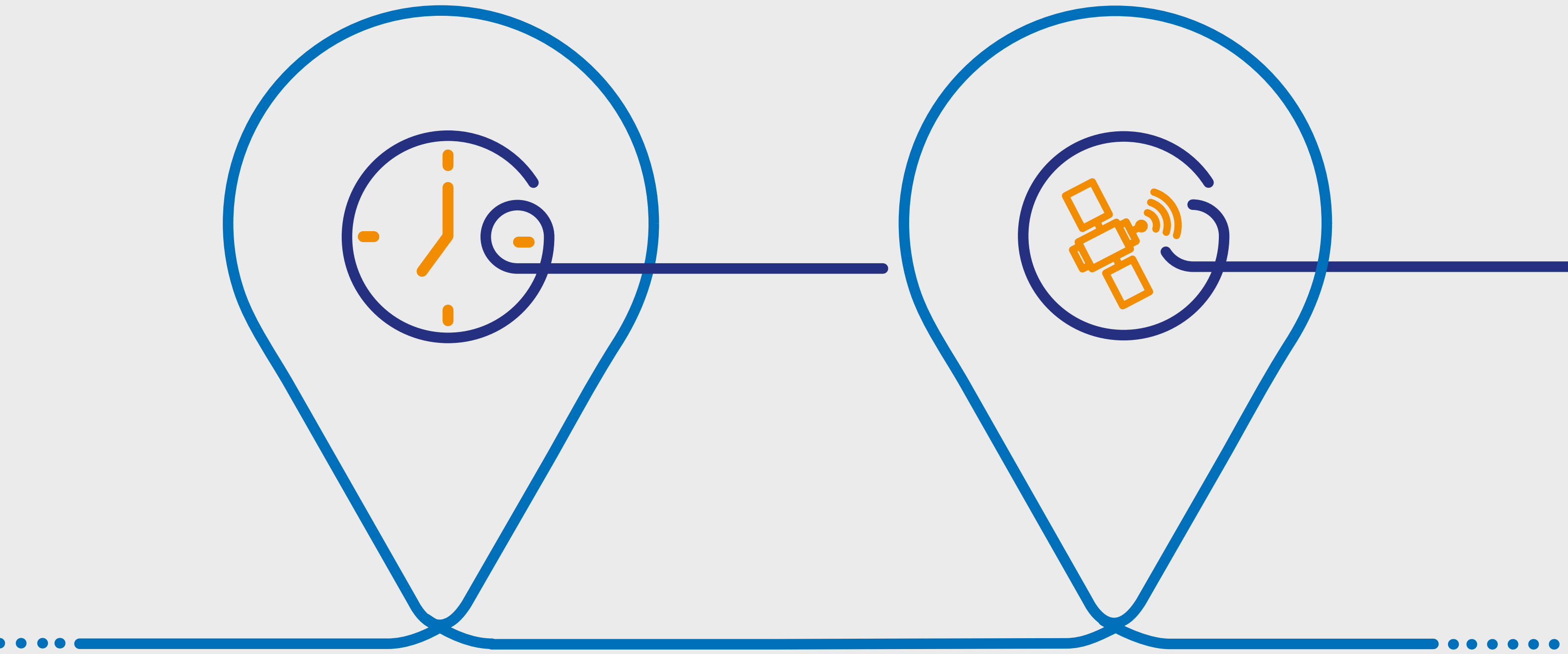
2016 was a challenging year for our staff. I would like to take this opportunity to thank them for their dedication and ongoing commitment. Finally, we would like to express our gratitude to our shareholders for their continued support.

Peter Harverson
Chairman
20 March 2017

What we do – at a glance

World leading solutions transforming location awareness into business intelligence

Operating through two divisions – Real-Time Location Systems (RTLS) and Geospatial – we deliver best-in-class enterprise location intelligence to customers. Central to our offering are two powerful software platforms that significantly improve operational effectiveness and profitability for businesses around the world.



Our divisions – at a glance

Real-Time Location System (RTLS) overview

Ubisense's Real-Time Location System is a flexible and highly configurable Enterprise Location Solution. It takes real-time location data from Ubisense's best-in-class sensing hardware that connects via Ultra-Wide Band ("UWB") radio signals to pinpoint highly accurate location information in three dimensions to identify a broad range of assets in real-time. The data can be used to control and manage a variety of industrial processes. The ability to detect and respond to real-world interactions between people, assets and the environment delivers enhanced productivity, improved quality and measurable return on investments. Our location technology is part of the mission-critical operational infrastructure with some of the world's leading industrial manufacturers in automotive, aerospace and agricultural machinery as well as delivering solutions to other industries such as logistics, transit, military, healthcare and research organisations.

RTLS key facts

- Nine of the world's top 10 automotive manufacturers use Ubisense (according to Forbes 2015)
- Six of the top 10 Fortune 500 manufacturers have deployed Ubisense solutions at locations around the world
- Demonstrated by an automotive customer to meet their extremely low application-level error rate requirements of four parts-per-million or less

RTLS customers and market

The Company has a well-established customer base, operating in a challenging industrial environment. We have consistently demonstrated high levels of reliability and scalability demanded by our customers, and are well positioned to capitalise on new opportunities as industrial enterprises begin to realise the huge value of real-time location information in improving productivity. We also offer solutions that integrate with existing corporate IT infrastructures, a critical factor for many businesses operating in our target markets.

A number of current customers are the early adopters of Industrial Internet of Things (IIoT) strategy, particularly in the automotive and aerospace sector, and customers including Airbus, refer to our technology as part of their IIoT platform. This puts Ubisense in a strong position, with industry expertise and endorsements from leading players in the field, to deliver further operational improvements and value to those customers, aligned to their corporate strategy. With the increasing adoption of RTLS technology and the move towards cross-enterprise solutions, the application to other verticals and the growth of independent services providers increases the addressable opportunity and strengthens our position in vertical markets where we have proven applications such as logistics, military and transport.

Geospatial overview

Ubisense's myWorld enterprise geomobility platform provides utilities and telecoms companies, which manage large numbers of dispersed assets, with the ability to integrate and extend the reach of GIS data to enable maximum operational effectiveness. This is complemented by many years of consulting experience. myWorld integrates data from any source – GIS databases, real-time asset data, GPS location, corporate systems, and external cloud-based sources – to deliver a live geospatial operational view. myWorld is designed to be integrated and extended across any enterprise, becoming a key part of day-to-day operations and delivers intelligence information to everyone – online or offline, standalone or embedded, in the office or field. This is supported by a number of applications that have been purpose-built to meet the operational needs of customers. Data can be downloaded directly to any supported mobile device, including phones, tablets and laptops running Android, iOS or Windows, ensuring ease of implementing and maintenance of a geomobility solution across the enterprise.

myWorld key facts

- myWorld is used by more than 18,000 operations and engineering professionals every day
- We work with more than 20 telecommunications/utility network operators around the world
- myWorld can enable utility field forces to cut storm restoration time by 20%

Geospatial customers and market

With our geomobility enterprise platform myWorld and its supporting applications, we are working closely with some of the world's leading utility and communications businesses. We are seeing increased interest in this product in Japan and early stage opportunities in Europe. New releases have been well received, as have the additional applications launched on the platform.

Alongside the continued focus on increasing sales of the myWorld platform, with its valuable attached services contracts, we remain committed to providing standalone geospatial services to our customers utilising third-party GIS databases. In some cases these standalone services are in decline, resulting in lower margins, fewer contract renewals and limited growth opportunities. However, our seasoned industry experts can equally be applied to delivering higher margin myWorld geomobility integration and support services, leveraging longer-term value to our customers.

Chief Executive's statement

Positioning for the future

Richard Petti
CEO

"Consumer demand and the competitive landscape for all our customers means digitisation of the production environment is moving quickly from being 'future state' to mission critical because of the strong ROI it generates. Ubisense is poised to capture this digitisation growth cycle which will be the dominant industrial IT spending theme over the next decade."

Q&A

What are your first impressions of the business?

The depth and quality of Ubisense's customer portfolio is impressive. We are a global business with installations running day in, day out across the world. From automotive producers in China, Germany, North America and elsewhere, to aerospace customers in Europe and utility businesses in North America and Japan, we have an enviable collection of blue-chip customers trusting their location intelligence needs to us. This footprint represents a huge opportunity for Ubisense to continue working closely with customers to successfully develop and improve their industrial operations through the use of location information. The Ubisense team has deep knowledge and experience, which can be harnessed to evolve our product sets to solve issues that have not yet been explored.

A combination of upskilling our commercial teams, strengthening market messages and branding, and intelligently targeting opportunities will help to grow our pipeline. We will continue the trend of acquiring customers requiring enterprise rather than point solutions, leveraging partners where appropriate.

What have you observed that differentiates Ubisense from the competition?

Ubisense is a true market leader both with its RTLS and Geospatial technology. Leadership of this quality comes from our in-depth understanding of customers' needs through years of working with them. We have competencies in automotive, utility, logistics, telecoms, aerospace, healthcare and transit and these have been invested into our product lines through a process of continuous improvement. Today, this gives us unique advantages in terms of our ability to solve customers' requirements with ultra-reliable, leading-edge location solutions.

Across the verticals that Ubisense serves, we're seeing the first generation of Industrial Internet of Things (IIoT) projects being implemented using our Enterprise Software platforms, delivering strong ROI to our customers in terms of reduced costs, improved quality and increased customer satisfaction.

What do you see as the greatest opportunities for Ubisense?

The greatest opportunity for Ubisense is the digitisation of the industrial workplace, which is ultimately driven by more personalised and lower cost products and services. On the manufacturing side this means paperless factories which are enabled by machine-to-machine or machine-to-human interaction. Digitisation will be the key to flexible factories that allow our customers to meet ever more complex production demands while reducing cost and improving quality. Concerning the Geospatial business, digitisation means greater customer satisfaction, improved asset management, increased geomobility and lower cost of operations. Consumer demand and the competitive landscape for all our customers means digitisation is moving quickly from being "future state" to mission-critical. Ubisense is poised to capture this digitisation growth cycle which will be the dominant theme over the next decade.

In summary, the Company is well positioned to play an important role in the emerging IIoT world.

Richard Petti
Chief Executive Officer
20 March 2017

Strategic focus

Implementing our strategy

Ubisense provides Enterprise Location Intelligence Solutions for companies across the world.

Our Vision
To revolutionise the world's ability to locate, connect and manage assets, making them more productive, flexible, profitable and driving quality.

Strategy
It is our belief that real-time location aware technology is the cornerstone of Industry 4.0, also known as the fourth industrial revolution, representing the next phase in the digitisation of production management and enterprise asset management. This will provide an opportunity to improve operational processes on an industrial scale, delivering measurable improvements in operational flexibility, quality, traceability and efficiency.

Meeting the demand to deliver real-time location information, our RTLS platform is proven to be highly scalable and reliable, operating 24/7 in a production environment. Our strategy is to leverage our reference installed base to sell the platform across a number of vertical markets including automotive, logistics, healthcare, military and transit. This will be achieved with the support of value added resellers and delivery partners. We will capitalise on the flexibility and scalability of the platform, delivering an open platform, and encouraging further third-party integration of sensors and application development.

Our myWorld geomobility platform continued to show excellent return on investment for our customers – enabling them to mobilise their GIS data and significantly improving the efficiency of their field operations. We have delivered a number of "upsell" applications on the myWorld platform, including gas leak survey and damage assessment, and we will continue to develop the product portfolio in line with customers' needs.

Our strategy is one of continued product development to address a wider client base with further functional enhancements. Combined with our deep understanding of geospatial databases this will allow us to be a leading solution in this market – with our commitment to delivering "Any data, Any device, Anywhere".

Our aim is to be the trusted adviser to our customers for all their asset location challenges in the verticals we are targeting. To do this we plan to strengthen our customer-facing operations, ensuring we have the skills and tools to provide best-in-class service and technical solutions so that our customers can solve their location challenges on time and on budget. Staying close to our customers will ensure that, whenever an investment decision is planned, we are there ready to offer world-class technology, helping them to meet and exceed their objectives for revenue, cost and quality.

Ubisense will become the enterprise solution of choice for Geospatial and RTLS customers, across existing and new markets.

Key strategic aims

To become the enterprise location solution of choice for customers

To increase presence in existing markets

To take our enterprise software platforms to new vertical markets

Key strategic priorities

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 the enterprise platforms to be truly capable of taking data from any source and offer real-time visibility.

Be a trusted adviser to our customers and engage earlier in product cycles to ensure that we can help them to manage challenges and exploit opportunities.

This will increase our ability to help drive quality, reduce costs, manage complexity and increase productivity across our customers' operations.

Both directly and through a growing network of partners, to develop our offering specifically for new vertical markets.

This will help us to leverage new opportunities for businesses, that can only be realised through location technology.

Strategy in action

Real-Time Location Systems case study

Ubisense helps to achieve vision of a paperless factory for premium vehicle manufacturer

Automotive manufacturers

Ubisense works with nine of the world's top 10 automotive manufacturers and has developed long-standing relationships with many of these businesses.

Our enterprise software and services enable them to not just meet their customers' needs for customisation but also meet the need to continually reduce operating costs. One of our customers is a leading manufacturer of premium vehicles that has seen first-hand the benefits of our technology, leading to the purchase of additional software licences and hardware to help reduce costs across multiple sites

Challenge

Manufacturers of premium vehicles now offer their customers a huge amount of choice in terms of design and features, making assembly lines increasingly complex to manage. Each vehicle in a line can often be a different model and specification, requiring a different tool and or torque setting. Our customer had used barcode scanning to register the vehicle's VIN, but this time took time. In addition, nearly all processes were recorded using paper-based methods, which were not an efficient use of time and could lead to issues with accuracy and storage.

The automotive manufacturer launched a new strategy to digitise processes, removing the use of paper from operations. Its two key goals were to reduce production time for every car and stop relying on the tonnes of paper used across plants on an annual basis.

Solution

Ubisense first started working with the manufacturer to deliver a solution to track tools and manage devices in real-time. Removing barcode scanners from the process, Ubisense Smart Factory was used to identify a vehicle's VIN and automatically enter the correct tool programs and torque settings for that specific vehicle.

The technology has been such a success that the automotive manufacturer has now purchased more software licences and hardware to install Ubisense's SmartSpace IIoT platform with a range of applications to cover the assembly line and in the finishing and repair section in plants across the world. Ubisense will be providing the technology to support not just tool control, but all four pillars of the manufacturer's strategy: electronic stamping, location system and HMI support for workers.

Results

Working closely with its customer, Ubisense has ensured an easy integration of its system into the existing IT infrastructure. Across the assembly lines, Ubisense's tool tracking and device management system has saved more than six minutes per vehicle and protects against the potential for human error.

Already, Ubisense's technology has delivered dramatic improvement and is well set to help the manufacturer create factories of the future that rely on digital, as opposed to paper-based, processes, delivering efficiencies across the operation in order to ramp up production without increasing costs.

Strategy in action

Geospatial case study

"We've been very impressed with Ubisense, the team has worked incredibly quickly and been able to cater for our specific business and technical requirements. myWorld is intuitive to use and provides a detailed view of our above and below ground network, layered on top of optional base maps including Google Maps, Google Satellite and Google Street View."

Nelson Gillette, Director IS at TELUS

TELUS

TELUS is Canada's fastest-growing national telecommunications company, with $12.7 billion of annual revenue and 12.6 million subscriber connections, including 8.5 million wireless subscribers, 1.4 million residential network access lines, 1.6 million internet subscribers and 1.0 million TELUS TV customers. TELUS provides a wide range of communications products and services including wireless, data, Internet Protocol (IP), voice, television, entertainment and video, and is Canada's largest healthcare IT provider.

Challenge

In early 2015 TELUS needed an updated web and mobile GIS platform to support critical operational processes with groups such as cable plant locates, field techs and construction. The new integrated web and mobile GIS solution needed to be set up quickly and provide teams with up-to-date, accurate information and enable the operations teams to meet business, deployment and regulatory requirements. In addition, its strategic fibre network deployment initiative required web and mobile GIS tools to meet critical progress timelines and milestone commitments.

Solution

The TELUS team had evaluated other web/mobile GIS solutions but none of them met the essential requirements. Several of the key TELUS stakeholders were aware of Ubisense myWorld and impressed with the innovative approach, solution capabilities and leading-edge architecture.

Following just four weeks of focused discussions, TELUS and Ubisense embarked on a four-week live system trial to prove the key requirements in a realistic environment. The trial was a complete success and led to the selection of myWorld as the strategic web and mobile GIS platform for TELUS nationally. The first phase of production rollout was executed in just five weeks.

Results

myWorld has significantly reduced the average time it takes to locate cables from 5-7 minutes to just seconds. Today, approximately 1,400 users access the information provided through myWorld and the number is growing. There has been a lot of positive feedback, with users praising the solution's performance, usability and integration with Google. The combined Ubisense and TELUS team continue to release a host of myWorld features with a focus on providing all the information and functions that users need to be productive.

Nelson Gillette, Director IS at TELUS said: "The open functionality of the myWorld application makes it possible to overlay many other types of data including forest fire perimeter details and power outage details. For example, in May 2016, it was used to assist with managing our operations in and around Fort McMurray, Alberta. As a result, response teams were aware of the current location of the fire in relation to our network infrastructure. We have plans to overlay additional customer and business insight details to better manage outage events, ultimately providing an improved customer experience."

myWorld has been so successful and well received that TELUS and Ubisense are now working to roll out additional business-focused applications.

Financial review

"The successful placing in April 2016 provided stability to the Group's balance sheet, allowing the further development and growth of the business."

Tim Gingell
Chief Financial Officer

The restructuring of the business has resulted in stronger conversion in the sales pipeline alongside the ability to manage the cost base more efficiently. The impact of this is an improvement to the Group's financial performance.

Financial Key Performance Indicators

	2016 £m	2015 £m
Revenue	26.5	22.0
Order book	12.6	9.6
Adjusted EBITDA	0.3	(5.2)
Cash and cash equivalents	3.5	5.4
Net cash/(debt)	0.2	(0.2)

Revenue

The restructuring of the Group into two core divisions in 2015, RTLS and Geospatial, increased the emphasis of sales leadership and pipeline conversion through the targeting of distinct sets of customers. This strategy, alongside a positive foreign exchange impact, resulted in increased revenue during 2016 and strengthening of the order book as at 31 December 2016.

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

Revenue by division	2016 £m	% of total revenue	2015 £m	% of total revenue	Year on year growth
RTLS	9.1	34%	6.5	30%	40%
Geospatial	17.4	66%	15.5	70%	13%
Total revenue	26.5	100%	22.0	100%	21%

Total revenue increased by 20.7% to £26.5 million (2015: £22.0 million).

Noting that substantially all of the revenues are generated outside of the UK, the significant change in exchange rates for USD, EUR and JPY against GBP during 2016 enhanced the revenue performance. Restating revenue at 2015 rates would have produced revenues as follows:

Revenue by division	2016 £m	% of total revenue	2015 £m	% of total revenue	Year on year growth
RTLS	8.1	35%	6.5	30%	25%
Geospatial	15.3	65%	15.5	70%	(1%)
Total revenue	23.4	100%	22.0	100%	6%

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

Revenue stream	2016 £m	% of total revenue	2015 £m	% of total revenue	Year on year growth
Software	3.2	12%	1.4	6%	129%
Maintenance and support	1.4	5%	1.0	4%	40%
Hardware	3.8	14%	3.2	15%	19%
Services	18.1	69%	16.4	75%	10%
Total revenue	26.5	100%	22.0	100%	21%

Maintenance and support relates to Ubisense's RTLS and myWorld products. These revenues are recurring contracts which can be renewed annually by our customers.

Services revenue includes installation and deployment of Ubisense's own RTLS and myWorld products, as well as revenues associated with third-party and non-core products.

RTLS revenue stream

During the year we increased our momentum in Europe with significant contract wins in the automotive sector, closing a global software platform sale together with contracts for extensions and new deployments at multiple sites for a range of customers. The majority of our revenues relate to a small number of large deals, the timing of which is not solely within our control and can carry a significant impact on results in a single reporting period.

Geospatial revenue stream

The Geospatial revenue stream includes both revenues directly associated with the myWorld enterprise geomobility platform as well as the provision of services on third-party GIS databases and non-core technologies, which do not directly involve the myWorld platform. These revenues are typically multi-year or annually renewed managed service and maintenance contracts, but also include consultancy and training.

Orders

Improvements in pipeline conversion resulted in a number of significant new contracts being awarded as well as extensions to existing contracts. Total new orders for the period were £29.3 million (2015: 19.2 million). £10.8 million of this related to RTLS (2015: £5.1 million) and £18.5 million to Geospatial (2015: £14.1 million).

Order book provides visibility over future revenues. The order book as at 31 December 2016 was £12.6 million (31 December 2015: £9.6 million), most of which will be recognised during 2017.

Gross margin

The Group gross margin increased from 35.0% in 2015 to 38.6% in 2016.

Gross margin by division is summarised as follows:

Gross margin by division	2016 £m	Gross margin %	2015 £m	Gross margin %	Gross margin % difference
RTLS	4.0	44%	2.8	43%	1%
Geospatial	6.2	36%	4.9	32%	4%
Total gross margin	10.2	39%	7.7	35%	4%

The increase in gross margin is due to the improved sales mix, driven by the increase in software sales, together with the full year impact of the cost reductions initiated in 2015.

The RTLS gross margin includes a £0.4 million provision against stock of the older version of the sensor and its components due to the increased speed of adoption of the newer D4 product by customers.

Operating expense and adjusted EBITDA

Operating expenses were £16.4 million (2015: £24.7 million) and are summarised as follows:

	2016 £m	2015 £m
Other operating expense	9.9	12.9
Depreciation	0.3	0.4
Amortisation and impairment	8.4	7.3
Non-recurring items	(2.2)	4.1
Total operating expense	16.4	24.7

Other operating expenses include sales, marketing, product development, administration and share based payments expense. The reduction is primarily due to the continued focus on managing the efficiency of our resources following the major restructuring programme undertaken in 2015.

Non-recurring items include £1.9 million of unrealised foreign exchange gains on intercompany trading balances (2015: £nil), £0.1 million of reorganisation costs (2015: £3.2 million) and a £0.4 million gain in respect of adjustments to deferred consideration.

Adjusted EBITDA excludes amortisation and impairment, depreciation and non-recurring items and is reported as it reflects the performance of the Group. Adjusted EBITDA was £0.3 million (2015: £5.2 million loss) with improvements to both gross margin and a reduction to other operating expenses driving the increase.

Finance costs

Net interest payable for the period was £0.3 million (2015: £0.3 million).

Income tax

The Group has a net tax credit of £1.1 million (2015: £0.6 million) as a result of cash received of £0.6 million under the UK R&D tax credit regime and £0.5 million 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 £6.4 million (2015: £17.3 million) and loss after tax reduced to £5.3 million (2015: £16.6 million).

The adjusted diluted loss per share was 3.9 pence (2015: 25.2 pence loss per share). Reported basic and diluted loss per share was 10.4 pence (2015: 52.3 pence).

The Board does not propose a dividend for the year.

Consolidated statement of financial position

In March 2016, the Mizuho Bank JPY 200 million facility was repaid.

In April 2016, the Group completed a share placing raising gross proceeds of £4.8 million with the placement of 19,230,000 new ordinary shares at a price of £0.25 per share primarily with existing shareholders. The net proceeds of £4.5 million from the placing were used by the Group to repay £0.5 million of the HSBC working capital facility and to provide additional funding to grow the business.

In October 2016, the £8.0 million HSBC working capital facility was further restructured, becoming a £4.0 million repayment loan with £0.75 million repayable on or before 31 December each year. £0.75 million of this facility was repaid in December 2016.

As at 31 December 2016, the Group had a positive net cash position of £0.2 million (2015: £0.2 million net debt) being £3.5 million of cash and £3.3 million of debt.

Non-current assets

Total non-current assets were £4.4 million (2015: £10.7 million).

The goodwill balance was established over 10 years ago in the combination of Ubisense Limited and the Ten Sails businesses. The Group undertook a detailed review of the historic business rationale and outlook at the point of acquisition, together with a review of the direction of our 2 divisions following the business restructuring. Resulting from this review, a £4.3 million goodwill provision (2015: £4.0 million relating to the Geospatial division) was made. This year has seen a material review of the business following management changes and the restructuring of all aspects of the business. While prospects for the business remain good, it has proven very difficult to assess these against a materially historic position. Therefore the Board considers it appropriate to make an impairment charge in 2016, reducing the goodwill intangible assets covering both RTLS and Geospatial to £nil (2015: £4.3 million).

Impairment charges of £1.0m were made relating to the acquired customer relationships resulting from the Geoplan acquisition in Japan in 2013, which has not delivered the growth trajectory originally anticipated.

Capitalised development costs represent the key intangible assets of the Group as this investment in products will deliver the current and future growth of the business. Capitalised development costs of £1.9 million (2015: £2.5 million) were recognised in 2016 reflecting the smaller size of organisation, and offset by amortisation of £2.6 million (2015: £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 and recognising the early stage of the emerging IIoT market.

Current assets

Total current assets increased to £17.8 million (2015: £17.5 million).

Trade receivables net of provisions increased to £9.2 million (2015: £5.7 million) driven primarily by orders received towards the end of the year.

Amounts recoverable on contracts totalled £2.9 million (2015: £2.1 million) which are generated primarily from services contracts or end of period deliveries, and invoiced in the following month or as the relevant milestone is reached.

Hardware inventories were reduced to £1.1 million (2015: £2.8 million) as the Group improves the sales forecasting process and management of working capital, noting also that a £0.4 million provision was made against older sensors and components during the year.

Total assets

Total assets decreased to £22.1 million (2015: £28.2 million).

Current liabilities

Total current liabilities decreased to £9.0 million (2015: £9.8 million). Trade payables reduced to £1.5 million (2015: £2.1 million) which was partly due to reduction of inventory purchases close to the year end.

Non-current liabilities

Total non-current assets decreased to £3.4 million (2015: £6.5 million) following the reduction in long-term debt from £4.5 million to £2.5 million as at 31 December 2016.

Net assets

Net assets decreased to £9.8 million (2015: £12.0 million) following the impairment of historic goodwill.

Cash and cash flow

Operating cash flow before working capital movement was £0.3 million inflow (2015: £9.2 million outflow).

Operating cash outflows from operating activities after adjusting for working capital were £2.0 million (2015: £3.5 million). Working capital increased at year end with an increase in debtors by £4.0 million (2015: £6.3 million decline) due to end of year contracts being won. This working capital decline was offset partially by a reduction in inventory of £1.8 million (2015: £0.1 million).

The Group had investment outflows of £2.0 million (2015: £2.8 million), which is largely made up of expenditure on product development.

Cash inflows from financing activities were £1.8 million (2015: £7.8 million). This included net proceeds from placings of £4.5 million (2015: £9.6 million) offset by repayment of borrowings and interest on those borrowings.

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.
- Project duration including installation service days.
- Our reaction and solution times to customer requests.

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

Tim Gingell
Chief Financial Officer
20 March 2017

Principal risks and uncertainties

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.

Strategic risks

Principal risk and impact	Mitigation of risk
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 opportunity pipeline at Board meetings. • 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. • 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. • Management of product roadmap 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 Company strategy.

Principal risks and uncertainties

Operational risks

Principal risk and impact	Mitigation of risk
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. The ability to upsell products/services and to renew re-occurring revenue contracts is dependent on maintaining a high level of customer service.	• Maintain regular communications with customers. • 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.
Regulatory breaches The Group is required to comply with local laws, regulations and legislation in each jurisdiction in which it operates. 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 23 June 2016, the UK voted to 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, 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.

Financial risks

Principal risk and impact	Mitigation of risk
Future funding requirements The Group may need to raise additional funding beyond that provided by the share placing in April 2016 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.	• Communication of medium and long-term strategy to our investors and bankers. • Monitoring of cash flow requirements and 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 2016, the balance of the facility was £3.3 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 a significant impact on the working capital available to the business.	• Improved financial performance over the past 12 months reduced the risk of breach of covenants. • 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 makes claims each year for research and development tax credits and since it is loss-making, elects to surrender these tax credits for a cash rebate with £0.6 million received during 2016. Additionally, 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 ongoing uncertainty of the impact of Brexit will continue to add to the volatility of foreign exchange rates.	• 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.
Credit risk 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. Delays in the timing of customer payments would reduce the working capital available to the Group.	• Maintain regular communications with customers. • Credit exposure by customer is reviewed regularly by the Executive management team and the Board. Provisions are made when there are circumstances or evidence of a likely reduction in the recoverability of the receivable.

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

Reliance on third parties, including manufacturers was identified as a principal risk in prior periods. While the risks around procurement continue to be monitored, management no longer believe this to be a principal risk due to the potential to source key equipment and materials from alternative suppliers.

The Strategic report was approved by the Board of Directors on 20 March 2017 and signed on its behalf by:

Tim Gingell
Chief Financial Officer
20 March 2017

Board of Directors

Peter Harverson
Executive Chairman

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 most recently, Senior Non-Executive Director at Brady plc. Currently, Peter is a Non-Executive Director CRFS Limited, and Non-Executive Chairman of enModus Limited.

Richard Petti
Chief Executive Officer

Richard Petti brings 25 years of experience in developing market leading businesses for automotive, financial and industrial customers. Richard has first-hand experience of growing revenues and developing profitable businesses serving automotive, financial and industrial customers. He joins Ubisense from his role as CEO of Asset Control, a worldwide supplier of financial data management systems serving some of the world's leading financial organisations. Prior to Asset Control, Richard was COO at WEMA, a leading provider of diesel and AdBlue sensors within the global commercial vehicle market. During his career, Richard has also held senior management and sales leadership roles at Orange Business Services and SunGard Data Systems.

Tim Gingell
Chief Financial Officer and Company Secretary

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 most recently was CFO or Director for a number of IBM's acquired companies having joined IBM when they acquired i2 from Silver Lake Sumeru. Prior to that Tim led the finance team at the venture capital backed company The Cloud Networks and previously spent 10 years at MFS / Worldcom in commercial roles.

Dr. Robert Sansom
Non-Executive Director

An active angel investor and mentor to start-ups, Robert is founder of the Cambridge Angels, a group of seasoned technology and bio-technology entrepreneurs who invest in and mentor start-ups and growth businesses. Previously, Robert was co-founder, CTO and Director of FORE Systems, Inc., a leading provider of networking equipment. FORE was listed on NASDAQ in 1994 and subsequently acquired by Marconi in 1999. Additionally, Robert served as the Chief Technology Officer at Marconi until 2000. Robert is a member of the Board of Directors of CCS Limited, CRFS Limited, Featurespace Limited, Focal Point Positioning Limited and Netronome Systems, Inc. He was elected as a Fellow of the Royal Academy of Engineering in 2010 and is a trustee of Camfed.

Paul Taylor
Non-Executive Director

Paul is a Fellow of the Association of Chartered Certified Accountants. He joined AVEVA Group Plc in 1989 where he was heavily involved in the flotation process and responsible for UK accounting and the development of AVEVA's overseas subsidiaries, including adherence to group standards. Between 1998 and 2001, Paul was also UK Director of Human Resources and was appointed to the position of Finance Director and Company Secretary of AVEVA Group plc on 1 March 2001. Paul was a recipient of the Finance Director of the Year award and FTSE250 Finance director of the year in 2008. Before joining AVEVA, Paul trained within the accountancy profession before moving to Philips Telecommunications (UK) where he was responsible for the management accounts of its Public Sectors division. Paul is a Non-Executive Director of Escher Group Holdings plc and Digital Barriers plc.

Ian Kershaw
Non-Executive Director

Ian has over 30 years' experience in the automotive, manufacturing and power industries. He has global responsibility for both transaction support and operational performance improvement within Ricardo's strategic consulting division. Ian has held management positions with Caterpillar, Rolls-Royce & Bentley Motor Cars and Arthur D. Little.

Oliver Scott
Non-Executive Director

Oliver co-founded Kestrel in 2009 where he is a partner and fund manager. He has spent over 20 years advising smaller quoted and unquoted companies and prior to Kestrel was a director of KBC Peel Hunt Corporate Finance. He is a non-executive director of Ubisense Group plc as well chairman of ZF Acquisitions Limited and ClearSpeed Technology Limited.

Corporate governance report

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

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

Composition of the Board

The Board comprises the Executive Chairman, four Non-Executive Directors and two Executive Directors. Biographical details of all members of the Board are set out on pages 24 and 25. The Chairman moved from a Non-Executive position to Executive on the departure of the previous CEO. With the appointment of a new CEO, the Chairman expects to resume a Non-Executive position again in the first half of 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. At the end of the year, all Non-Executive Directors except Oliver Scott held shares directly 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 Executive Chairman and Chief Executive Officer are vested in separate individuals, each with a clear allocation of accountability and responsibility. The 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 and the integrity of each Director ensures that there is no one individual or group dominating the decision making process.

The role of the Board

The Board holds full meetings at least 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 Company;
- approving corporate acquisitions, mergers, divestments, joint ventures and major capital expenditure; and
- receiving, reviewing and approving recommendations by the designated committee on matters related to audit, nominations and remuneration.

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

Summary of Board meeting attendance in 2016

The Board is expected to meet regularly on a formal basis at least 10 times a year. 18 Board meetings were held in 2016. Attendance at the meetings was as follows:

	Total meetings attended
Tim Gingell	5 (5)
Richard Green	9 (9)
Peter Harverson	18 (18)
Ian Kershaw	16 (18)
Oliver Scott	8 (8)
Robert Sansom	15 (18)
Paul Taylor	17 (18)

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

Board Committees

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

Summary of Committee membership

The Committee membership as at 31 December 2016, was as follows;

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

On 1 January 2016, Peter Harverson became Non-Executive Chairman and Ian Kershaw became Chair of the Remuneration Committee. Oliver Scott joined the Remuneration Committee on 29 June 2016.

Summary of Committee meeting attendance

	Audit Committee	Nomination Committee	Remuneration Committee
Peter Harverson	–	3 (3)	–
Ian Kershaw	4 (4)	–	3 (3)
Oliver Scott	–	–	2 (2)
Robert Sansom	–	3 (3)	–
Paul Taylor	4 (4)	3 (3)	3 (3)

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

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

Corporate governance report continued

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 three times on a formal basis. The Committee is expected to meet formally twice a year.

Remuneration Committee

The Remuneration Committee has responsibility for the following matters:

- Agreeing the framework for the Group's remuneration policy for Directors and key management personnel, including determining individual remuneration policies for Executive Directors.
- Approving the design and targets for short and long term incentive plans.
- Determining the policy and scope of pension arrangements.
- Ensuring contractual terms and payments made on termination are fair to both the individual and the Group.
- Agreeing the policy for authorising expense claims by the 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 three times on a formal basis. The Committee is expected to meet formally twice a year.

Internal control

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

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

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

Directors' report

The Directors present their annual report on the affairs of the Group together with the audited financial statements for the year to 31 December 2016. The Corporate Governance Statement set out on pages 26 to 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.

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.

Substantial shareholdings

On 20 March 2017, the Company had been notified of the following significant interests in its ordinary share capital:

	Total holding Number	% of issued share capital
Kestrel Partners	**15,702,993**	28.07%
Columbia Threadneedle Investments	**9,799,163**	17.54%
Robert Sansom	**4,985,899**	8.93%
NFU Mutual Insurance Society Ltd	**3,376,490**	6.05%
Henderson Global Investors	**2,669,021**	4.78%
Living Bridge	**2,535,594**	4.54%
Ruffer LLP	**1,934,671**	3.46%
Richard Green	**1,728,845**	3.10%

Directors

The Directors serving at 31 December 2016 were as follows:

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

Board changes

On 17 May 2016 Richard Green resigned from the Board. On the same day Oliver Scott was appointed as Non-Executive Director.

On 9 August 2016 Tim Gingell, who had been the Interim Chief Financial Officer and Company Secretary since 27 July 2015, was appointed as the permanent Chief Financial Officer and made an Executive Director to the Company.

On 14 December 2016 Richard Petti was appointed as the Chief Executive Officer.

Directors' interests - shares

Directors' interests in the ordinary shares of Ubisense Group plc at 31 December 2016 were as follows:

	2016 Number	2015 Number
Peter Harverson	**145,161**	65,161
Ian Kershaw	**2,000**	2,000
Robert Sansom	**4,985,899**	2,985,899
Tim Gingell	**40,000**	–
Paul Taylor	**113,334**	33,334
Total	**5,286,394**	3,086,394

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

There has been no change in the interests set out above between 31 December 2016 and 20 March 2017.

Directors' interests

Details of Directors' remuneration and share options are provided in the Directors' remuneration report on pages 32 to 34. 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.

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

No adjusting or significant non-adjusting events have occurred between the 31 December reporting date and the date of authorisation.

Dividends

The Directors do not recommend payment of a dividend for the year (2015: £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
20 March 2017
Ubisense Group plc
Registered number: 05589712

Directors' remuneration report

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 2016. 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.

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 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.

The appointment of the Executive Chairman is terminable on three 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.

Bonuses

Executive Directors are eligible to participate in an annual bonus programme, which is calculated by reference to the annual financial targets of operating cash flow as defined by the bank covenant metric with positive cash flow after accounting for the bonus being a minimum hurdle. Up to 20% of the bonus is payable against goal driven objectives and the remainder paid on an agreed scale that increases depending on the operating cash flow generated after accounting for bonuses.

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 do not participate in the Group's pension scheme.

Directors' remuneration

The Directors received the following remuneration during the year:

Director	Basic salary £'000	Benefits in kind £'000	Performance payments £'000	Termination benefits £'000	2016 total excluding pensions £'000	Pensions £'000	**Total 2016 £'000**	Total 2015 £'000
Richard Green[1]	84	–	–	149	233	9	**242**	203
Tim Gingell[2]	59	1	5	–	65	6	**71**	–
Peter Harverson[3]	188	–	–	–	188	7	**195**	94
Richard Petti[4]	7	–	–	–	7	–	**7**	–
Robert Parker[5]	–	–	–	–	–	–	**–**	220
Executive Directors	338	1	5	149	493	22	**515**	517
Andrew Hopper[6]	–	–	–	–	–	–	**–**	30
Robert Sansom[7]	–	–	–	–	–	–	**–**	–
Paul Taylor[8]	43	–	–	–	43	–	**43**	51
Oliver Scott[9]	12	–	–	–	12	–	**12**	–
Ian Kershaw	25	–	–	–	25	–	**25**	20
Non-Exec Directors	80	–	–	–	80	–	**80**	101
Total	418	1	5	149	573	22	**595**	618

1 Richard Green resigned from the Board on 17 May 2016.
2 Remuneration for Tim Gingell is included from the date of his appointment as a director on 9th August 2016. His basic salary is £155,000 with a performance related bonus of £50,000. Performance payments represent the reward for achievement of goals agreed pre-appointment.
3 Included within Peter Harverson's reported base salary is £12,000 (2015: £25,000) for Directors fees paid in the role of Non-Executive Chairman for the period to 18th May 2016. From 18th May 2016 the salary while acting as Executive Chairman was £185,000 (2015: £Nil). Additionally, fees of £68,000 (2015: £69,000) were paid during the year for other duties requested by the Board as Non-Executive Chairman.
4 Remuneration for Richard Petti is included from the date of his appointment as CEO on 14th December 2016. His basic salary is £225,000 with a performance related bonus of £125,000.
5 Robert Parker resigned from the Board on 30 June 2015.
6 Andy Hopper resigned from the Board on 31 December 2015.
7 Robert Sansom has waived his entitlement to annual remuneration of £25,000 (2015: £20,000 waived).
8 Included for Paul Taylor is £25,000 (2015: £25,000) for Director's fees and £18,000 (2015: £26,000) for other duties requested by the Board.
9 Oliver Scott was appointed Non-Executive Director of the Company on 17 May 2016. The annual remuneration of the appointment is £20,000.

Directors' remuneration report continued

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 new 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 Years	Vests Years	Expires Year	Exercise price £	Awards Outstanding at 1 January 2016 Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	**Awards outstanding at 31 December 2016 Number**	Awards exercisable at 31 December 2016 Number
Richard Green	2011	2012-14	2021	1.050	100,000	–	–	(100,000)	**–**	–
	2012	2013-15	2022	2.125	60,000	–	–	(60,000)	**–**	–
	2013	2014-16	2023	2.055	60,000	–	–	(60,000)	**–**	–
	2014	2015-17	2024	2.250	75,000	–	–	(75,000)	**–**	–
					295,000	–	–	(295,000)	**–**	–
Peter Harverson	2010	2011-13	2020	0.140	91,333	–	–	–	**91,333**	91,333
	2016	2019	2026	0.020	–	850,000	–	–	**850,000**	–
					91,333	850,000	–	–	**941,333**	91,333
Richard Petti	2016	2019	2026	0.020	–	1,600,000	–	–	**1,600,000**	–
Tim Gingell	2016	2019	2026	0.020	–	700,000	–	–	**700,000**	–
Total					386,333	3,150,000	–	(295,000)	**3,241,333**	91,333

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:
- so far as that Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Independent auditor's report

to the members of Ubisense Group plc

We have audited the Group financial statements of Ubisense Group plc for the year ended 31 December 2016 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 35, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of Ubisense Group plc for the year ended 31 December 2016.

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

20 March 2017

Consolidated income statement

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Revenue	5	**26,523**	21,982
Cost of revenues		**(16,280)**	(14,290)
Gross profit		**10,243**	7,692
Operating expenses		**(16,408)**	(24,671)
Operating loss		**(6,165)**	(16,979)
Analysed as:			
Gross profit		**10,243**	7,692
Other operating expenses		**(9,919)**	(12,914)
Adjusted EBITDA		**324**	(5,222)
Depreciation	12	**(345)**	(388)
Amortisation and impairment of acquired intangible assets	11	**(1,223)**	(309)
Amortisation and impairment of other intangible assets	11	**(7,143)**	(6,985)
Non-recurring items	8	**2,222**	(4,075)
Operating loss		**(6,165)**	(16,979)
Finance income	7	**44**	12
Finance costs	7	**(323)**	(301)
Loss before tax		**(6,444)**	(17,268)
Income tax	9	**1,136**	632
Loss for the year		**(5,308)**	(16,636)
Loss attributable to:			
Equity shareholders of the Company		**(5,196)**	(16,569)
Non-controlling interest		**(112)**	(67)
		(5,308)	(16,636)
Loss per share attributable to the equity shareholders of the parent (pence)			
Basic		**(10.4p)**	(52.3p)
Diluted		**(10.4p)**	(52.3p)

The notes on pages 42 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Loss for the year	**(5,308)**	(16,636)
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	**(1,357)**	139
Total comprehensive loss for the year	**(6,665)**	(16,497)
Attributable to:		
– Equity shareholders of the Company	**(6,682)**	(16,423)
– Non-controlling interest	**17**	(74)
Total comprehensive loss for the year	**(6,665)**	(16,497)

The notes on pages 42 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016

	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 2015	501	28,051	821	(685)	(10,427)	**18,261**	530	**18,791**
Loss for the year	–	–	–	–	(16,569)	**(16,569)**	(67)	**(16,636)**
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	–	146	–	**146**	(7)	**139**
Total comprehensive loss for the year	–	–	–	146	(16,569)	**(16,423)**	(74)	**(16,497)**
Reserve credit for equity-settled share-based payment	–	–	54	–	–	**54**	–	**54**
Issue of new share capital	231	–	–	–	–	**231**	–	**231**
Premium on new share capital	–	9,845	–	–	–	**9,845**	–	**9,845**
Share issue costs	–	(474)	–	–	–	**(474)**	–	**(474)**
Transactions with owners	231	9,371	54	–	–	**9,656**	–	**9,656**
Balance at 31 December 2015	732	37,422	875	(539)	(26,996)	**11,494**	456	**11,950**
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**

The notes on pages 42 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	11	**3,616**	9,786
Property, plant and equipment	12	**745**	943
Total non-current assets		**4,361**	10,729
Current assets			
Inventories	13	**1,064**	2,815
Trade and other receivables	14	**13,221**	9,277
Cash and cash equivalents	15	**3,498**	5,392
Total current assets		**17,783**	17,484
Total assets		**22,144**	28,213
Liabilities			
Current liabilities			
Trade and other payables	16	**(8,239)**	(8,629)
Bank loans	17	**(750)**	(1,123)
Total current liabilities		**(8,989)**	(9,752)
Non-current liabilities			
Deferred income tax liabilities	9	**(683)**	(1,157)
Trade and other payables		**(42)**	(203)
Bank loans	17	**(2,500)**	(4,500)
Other payables	18	**(179)**	(651)
Total non-current liabilities		**(3,404)**	(6,511)
Total liabilities		**(12,393)**	(16,263)
Net assets		**9,751**	11,950
Equity attributable to owners of the parent company			
Ordinary share capital	19	**1,118**	732
Share premium	19	**41,554**	37,422
Share based payment reserve		**823**	875
Translation reserves		**(2,025)**	(539)
Retained earnings		**(32,192)**	(26,996)
Equity attributable to shareholders of the Company		**9,278**	11,494
Non-controlling interests		**473**	456
Total equity		**9,751**	11,950

The notes on pages 42 to 67 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 20 March 2017 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 2016

	Notes	2016 £'000	2015 £'000
Loss before tax		**(6,444)**	(17,268)
Adjustments for:			
Depreciation	8, 12	**345**	388
Amortisation and impairment	8, 11	**8,366**	7,294
Adjustments to contingent consideration	8	**(355)**	–
Loss on the disposal of property, plant and equipment	8	**24**	–
Revaluation of intercompany balances		**(1,877)**	–
Share-based payments charge	20	**(20)**	54
Finance income	7	**(44)**	(12)
Finance costs	7	**323**	301
Operating cash flows before working capital movement		**318**	(9,243)
Change in inventories		**1,751**	66
Change in receivables		**(3,941)**	6,264
Change in payables		**(743)**	(1,010)
Cash used in operations before tax		**(2,615)**	(3,923)
Net income taxes received		**579**	436
Net cash flows from operating activities		**(2,036)**	(3,487)
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		**–**	(3)
Purchases of property, plant and equipment		**(26)**	(196)
Proceeds on disposal of property, plant and equipment		**–**	4
Expenditure on intangible assets		**(2,059)**	(2,652)
Interest received		**44**	12
Net cash flows from investing activities		**(2,041)**	(2,835)
Cash flows from financing activities			
Proceeds of borrowings		**–**	522
Repayment of borrowings		**(2,373)**	(2,000)
Interest paid		**(352)**	(277)
Proceeds from the issue of ordinary share capital		**4,518**	9,602
Net cash flows from financing activities		**1,793**	7,847
Net (decrease)/increase in cash and cash equivalents		**(2,284)**	1,525
Cash and cash equivalents at start of period		**5,392**	3,697
Exchange differences on cash and cash equivalents		**390**	170
Cash and cash equivalents at end of period	15	**3,498**	5,392

The notes on pages 42 to 67 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information

Ubisense Group plc ("the Company") and its subsidiaries (together, "the Group") deliver Enterprise Location Intelligence solutions that enable customers with complex operations to track the precise location of assets across their business in real-time and is proven to deliver 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, logistics, 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 2016, was 41.5 pence per share (31 December 2015: 43.0 pence).

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

The Group has its main operations in the UK, USA, Canada, Germany, France and Japan and sells mainly in North America, Europe and Asia. The Group legally consists of ten companies headed by Ubisense Group plc. A full list of subsidiaries is given in note 22 of the financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2017.

2 New accounting standards

For the purposes of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations as adopted in the European Union that are effective for accounting periods beginning on or after 1 January 2016.

The accounting policies used are the same as set out in detail in the Report and Accounts 2015 and have been applied consistently to all periods presented in these 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 these financial statements that have been published and that are mandatory for the Group's accounting periods beginning on or after 1 January 2017, 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 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, and other common complexities. Management intends to adopt the Standard retrospectively, recognising the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings on the initial date of application. Under this method, IFRS 15 will only be applied to contracts that are incomplete as at 1 January 2018.

Management has started to assess the impact of the new standard. The Group enters into arrangements which have multiple performance obligations which may include hardware sales, software sales, maintenance & support, and service revenues. Therefore, the application of IFRS 15 will impact the Financial Statements.

IFRS 16 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. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information.

The Directors are of the opinion, that the application of IFRS 9 is unlikely to have a significant impact, other than increased disclosures, on the Financial Statements of the Group.

3 Summary of significant accounting policies

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

Basis of preparation

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

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

Going concern basis

The 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. In reaching their conclusion they recognise that the Group meets its day-to-day working capital requirements through its bank facilities.

The Group had cash of £3.5 million at the balance sheet date. As disclosed in note 17, the Group restructured its working capital facilities in October 2016, becoming a £4.0 million repayment loan with covenants requiring £0.75 million repayable on or before 31 December each year, £nil operating cash flow before working capital adjustments in 2017, and £1 million operating cash flow in future years. The balance of this facility as at 31 December 2016 was £3.25 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:

- 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 will be in a position to meet the next repayment instalment of £0.75 million on or before 31 December 2017.

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.

Notes to the consolidated financial statements continued

3 Summary of significant accounting policies continued

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.

Segment reporting

IFRS 8 requires a "management approach" under which information in the financial statements is presented on the same basis as that used for internal management reporting purposes.

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

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

Revenue recognition

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

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

Revenue earned from sales under licence agreements is recognised when the software is made available. When the sale includes a period of support and maintenance, a proportion of the revenue is deferred and recognised 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.

(c) Termination benefits

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

Operating lease income and expense

The Group as the lessor

(a) Rental income

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

The Group as the lessee

(b) Rental expense

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

(c) Lease incentives

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

Non-recurring items

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

Notes to the consolidated financial statements continued

3 Summary of significant accounting policies continued

(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.

Acquisition-related costs are expensed as incurred.

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

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

Goodwill

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

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

Research and development

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is only capitalised if all of the following conditions are met:
- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

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

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

Other intangible assets

Intangible assets that are purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost and amortised on a straight-line basis over their useful economic life which is typically 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. The useful economic lives of the intangible assets recognised on acquisition are as follows:
- Software products recognised on acquisition: 3 years
- Customer relationships recognised on acquisition: 3 years
- Order book: based on contract life recognised on acquisition, typically less than 1 year

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged to the income statement so as to write off the cost or valuation less estimated residual values over their expected useful lives on a straight-line basis over the following periods:
- Fixtures and fittings: 3 to 10 years, or period of the lease if shorter
- Computer equipment: 3 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.

Notes to the consolidated financial statements continued

3 Summary of significant accounting policies continued

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.

Trade receivables

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

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

Cash and cash equivalents

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

Trade payables

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

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

Borrowings

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

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

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

Share capital and share premium

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

Share-based payment reserve

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

Translation reserve

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

4 Critical accounting judgements and key sources of estimation and uncertainty

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

Impairment of goodwill and intangible assets

The Group tests goodwill and intangible assets for impairment annually in accordance with the accounting policy stated in note 3. During the year the Group undertook a detailed review of the historic business rationale and outlook at the point of acquisition, together with a review of the direction of our 2 divisions following the restructure. As a result of this review, a £4.3 million (2015: £4.0 million relating to the Geospatial division) impairment charge has been made in 2016 reducing the goodwill intangible assets net book value in both RTLS and Geospatial to £nil (2015: £4.3 million). In reaching the conclusion that the underlying business rationale for the historic acquisitions no longer has relevance to the future direction of our 2 business units requires significant management judgement. Additionally, an impairment expense of £1.0 million (2015: £nil) was recognised in respect of customer relationships which arose on the acquisition of the Geoplan group of companies in 2013 and has not delivered the growth trajectory originally anticipated.

Capitalisation of development costs

The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgement of the point at which technical and commercial feasibility is demonstrable. The carrying amount of capitalised development costs at 31 December 2016 is £3.3 million (2015: £4.0 million).

Revenue recognition

Significant management judgement is applied in determining the allocation and timing of the recognition of revenue on fixed price, long-term customer specific contracts. In this process management takes into account milestones, hardware supplied, actual work performed, and further obligations and costs expected to complete the work. The carrying value of amounts recoverable on contracts at 31 December 2016 is £2.9 million (2015: £2.1 million).

Inventories

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

Deferred tax

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

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 3rd 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.

Notes to the consolidated financial statements continued

5 Segment information continued

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 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)**
Finance costs			**(279)**	**(279)**
Loss before tax			**(11,964)**	**(6,444)**
Income tax			**1,136**	**1,136**
Loss after tax			**(10,828)**	**(5,308)**

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

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	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
UK	**365**	487	**3,940**	6,412
France	**313**	616	**3**	4
Germany	**6,456**	3,074	**106**	1,242
Europe other	**936**	580	**-**	-
USA	**12,325**	12,131	**183**	1,008
Canada	**1,664**	1,423	**-**	2
Japan	**4,328**	3,330	**129**	2,061
Asia Pacific other	**91**	337	**–**	–
Rest of World	**45**	4	**–**	–
	26,523	21,982	**4,361**	10,729

5.3 Information about major customers

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.

During 2015, no single customer contributed 10% or more to the Group's revenue.

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	**2016 Number**	2015 Number	**2016 Number**	2015 Number
Technical consultants	**59**	89	**64**	103
Sales & marketing	**38**	38	**42**	45
Research & development	**22**	31	**25**	33
Administration	**23**	22	**23**	27
	142	180	**154**	208

By geography	**2016 Number**	2015 Number	**2016 Number**	2015 Number
United Kingdom	**43**	44	**46**	54
Europe	**19**	39	**26**	44
Americas	**53**	63	**57**	71
Asia	**27**	34	**25**	39
	142	180	**154**	208

6.2 Employee benefits

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

	Notes	**2016 £'000**	2015 £'000
Wages and salaries		**12,392**	15,768
Social security costs		**1,162**	1,362
Contributions to defined contribution pension arrangements		**521**	581
Share-based payments	20	**(20)**	54
Total aggregate employee benefits		**14,055**	17,765

Included in the wages and salaries figure above are termination benefits of £0.1 million (2015: £2.0 million) which are presented as non-recurring costs in the income statement – see note 8.2.

Notes to the consolidated financial statements continued

7 Finance income and costs

	2016 £'000	2015 £'000
Interest income from cash and cash equivalents	**44**	12
Finance income	**44**	12
Interest payable – bank	**(302)**	(287)
Interest payable – other	**(21)**	(14)
Finance costs	**(323)**	(301)
Net finance costs	**(279)**	(289)

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	2016 £'000	2015 £'000
Amortisation and impairment of acquired intangible assets	11	**1,223**	309
Amortisation and impairment of other intangible assets	11	**7,143**	6,985
Depreciation of owned property, plant and equipment	12	**345**	388
Loss on disposal of property, plant and equipment		**24**	–
Operating lease rental charges – land and buildings		**625**	677
Operating lease rental charges – other		**89**	63
Inventory recognised as an expense		**1,532**	1,478
Research & development costs expensed		**466**	581
Net foreign currency (gains)/losses		**(350)**	175
Non-recurring items (excluding impairment of goodwill)	8.2	**(2,222)**	4,075
Auditors' remuneration	8.3	**212**	163

8.2 Non-recurring items

	2016 £'000	2015 £'000
Reorganisation costs	**139**	3,163
Adjustment to contingent consideration	**(355)**	–
Disposal of subsidiary companies	**–**	809
Unrealised foreign exchange (gains)/losses on intercompany trading balances	**(1,877)**	37
Aborted acquisition costs	**–**	7
Others	**(129)**	59
Total non-recurring items	**(2,222)**	4,075

Non-recurring items include £1.9 million of unrealised foreign exchange gains on intercompany trading balances (2015: £nil), £0.1 million of reorganisation costs (2015: £3.2 million) and a £0.4 million gain in respect of adjustments to deferred consideration (2015: £nil).

During 2015, the Group disposed of two subsidiary companies and incurred costs relating to exits from these markets.

8 Loss before tax: analysis of expenses by nature continued

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:

	2016 £'000	2015 £'000
Fees payable to the Group's auditor for the audit of:		
Parent company and consolidated financial statements	**28**	25
Financial statements of subsidiaries, pursuant to legislation	**89**	90
Interim reporting fees	**15**	11
Total audit fees	**132**	126
Fees payable to the Group's auditor for other services:		
Tax services	**25**	24
Other services	**55**	13
Total non-audit fees	**80**	37
Total auditors' remuneration	**212**	163

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

9 Income tax

9.1 Income tax recognised in the income statement

	2016 £'000	2015 £'000
Current tax		
UK corporation tax	**–**	–
Foreign tax	**(2)**	69
Research & development tax credits – prior years	**(579)**	(524)
Total current tax credit	**(581)**	(455)
Deferred tax		
Origination and reversal of temporary differences	**(555)**	(177)
Total deferred tax credit	**(555)**	(177)
Total income tax credit	**(1,136)**	(632)

The tax credit differs from the standard rate of corporation tax in the UK for the year of 20.0% (2015: 20.3%) for the following reasons:

	2016 £'000	2015 £'000
Loss before tax	**(6,444)**	(17,268)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 20.0% (2015: 20.3%)	**(1,289)**	(3,505)
Tax effects of:		
Expenses not deductible for tax purposes	**780**	829
Utilisation of previously unrecognised tax losses	**(270)**	(94)
Tax losses for which no deferred tax asset was recognised	**498**	3,526
Tax unprovided in prior years	**–**	54
Research & development tax credits – prior years	**(579)**	(524)
Difference on tax treatment of share options – unrecognised	**(4)**	(223)
Re-measurement of deferred tax – change of tax rate	**–**	(42)
Differential on overseas tax rates	**(224)**	(712)
Other unrecognised temporary differences	**(48)**	59
Total income tax credit	**(1,136)**	(632)

Notes to the consolidated financial statements continued

9 Income tax continued

9.2 Factors that may affect future tax charges

The Group has tax losses of £17.6 million (2015: £10.5 million) that are available for offset against future taxable profits of those subsidiary companies in which the tax losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, and they have arisen in subsidiaries whose future taxable profits are uncertain. No deferred tax has been recognised on the unremitted earnings of overseas subsidiaries, because the earnings are continually reinvested by the Group and no tax is expected to be payable on them in the foreseeable future.

On 26 October 2015, the UK Government substantially enacted reductions to the UK corporation tax rates. Effective from 1 April 2017, the UK corporation tax rate will reduce to 19% from 20% and effective from 1 April 2020, the rate will further reduce to 18%. As a result, the deferred tax balances have been 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	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
At 1 January	**–**	–	**(1,157)**	(1,336)
Deferred tax credited to the income statement	**–**	–	**958**	780
Deferred tax charged to the income statement	**–**	–	**(403)**	(603)
Foreign exchange movements	**–**	–	**(81)**	–
At 31 December	**–**	–	**(683)**	(1,157)

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

	2016 £'000	2015 £'000
Development costs capitalised	**(669)**	(797)
Intangible assets recognised on acquisition of subsidiaries	**–**	(360)
Other	**(14)**	–
Total deferred income tax liabilities	**(683)**	(1,157)

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:

	2016 £'000	2015 £'000
Tax losses carried forward	**4,823**	2,864
Equity-settled share options temporary differences	**18**	24
Total unrecognised deferred tax assets	**4,841**	2,888

10 Earnings per share (EPS)

	2016	2015
Earnings		
Earnings for the purposes of basic and diluted EPS being net loss attributable to equity holders of the parent company (£'000)	**(5,196)**	(16,569)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS ('000)	**49,756**	31,657
Effect of dilutive potential ordinary shares:		
– Share options ('000)	**211**	418
Weighted average number of ordinary shares for the purposes of diluted EPS ('000)	**49,967**	32,075
Basic EPS (pence)	**(10.4)**	(52.3)
Diluted EPS (pence)	**(10.4)**	(52.3)

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 on acquired intangible assets, share-based payments charge and non-recurring items/impairment from the measurement of profit for the period.

	Notes	2016	2015
Earnings for the purposes of diluted EPS being net loss attributable to equity holders of the parent company (£'000)		**(5,196)**	(16,569)
Adjustments:			
Amortisation and impairment of acquired intangible assets (£'000)	8, 11	**1,223**	309
Impairment of goodwill (£'000)	8, 11	**4,271**	4,043
Reversal of share-based payments charge (£'000)	20	**(20)**	54
Reversal of non-recurring items (£'000)	8	**(2,222)**	4,075
Net adjustments (£'000)		**3,252**	8,481
Adjusted earnings (£'000)		**(1,944)**	(8,088)
Adjusted diluted EPS (pence)		**(3.9)**	(25.2)

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.

Notes to the consolidated financial statements continued

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 2015	9,416	1,837	885	10,417	1,139	23,694
Exchange difference	91	63	16	–	68	238
Additions	–	–	–	2,499	152	2,651
Disposals	(1,193)	–	(338)	(511)	(59)	(2,101)
At 31 December 2015	8,314	1,900	563	12,405	1,300	24,482
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**
Accumulated amortisation						
At 1 January 2015	(1,192)	(805)	(657)	(6,190)	(487)	(9,331)
Effects of movement in exchange rates	–	(24)	(11)	–	(52)	(87)
Charge for the year	–	(189)	(119)	(2,609)	(279)	(3,196)
Elimination on disposal	1,192	–	338	429	57	2,016
Impairment for the year	(4,043)	–	–	(55)	–	(4,098)
At 31 December 2015	(4,043)	(1,018)	(449)	(8,425)	(761)	(14,696)
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)**
Net book amount						
At 31 December 2016	**–**	**–**	**–**	**3,343**	**273**	**3,616**
At 31 December 2015	4,271	882	114	3,980	539	9,786

Goodwill

The goodwill balance was established over 10 years ago in the combination of Ubisense Limited and Ten Sails businesses. The Group undertook a detailed review of the historic business rationale and outlook at the point of acquisition, together with a review of the direction of our 2 divisions following the restructure. As a result of this review, a £4.3 million (2015: £4.0 million relating to the Geospatial division) impairment charge has been made in 2016, reducing the goodwill intangible assets net book value in both RTLS and Geospatial to £nil (2015: £4.3 million).

Other intangible assets

The acquired software products, customer relationships and order backlog assets arose on the acquisition in 2013 of the Geoplan group of companies and in 2011 of Integrated Mapping Solutions, Inc. (now merged into Ubisense Inc.) and Realworld OO Systems Limited (now re-named Geospatial Systems Limited).

During the year, an impairment expense of £1.0 million was recognised in respect of customer relationships which arose on the acquisition of the Geoplan group of companies in 2013 and has not delivered the growth trajectory originally anticipated.

Capitalised development assets relate to expenditure that can be applied to a plan or design for the production of new or substantially improved products and processes. The impairment of capitalised development costs in 2015 writes off expenditure on products that will not be launched to the market.

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 2015	891	887	1,778
Effect of movements in exchange rates	58	(71)	(13)
Transfers	(194)	194	–
Additions	78	118	196
Disposals	(35)	(11)	(46)
Disposal of subsidiary	(12)	–	(12)
At 31 December 2015	786	1,117	1,903
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**
Accumulated depreciation			
At 1 January 2015	(138)	(528)	(666)
Effect of movements in exchange rates	(1)	43	42
Transfers	181	(181)	–
Charge for the year	(233)	(155)	(388)
Elimination on disposals	35	10	45
Disposal of subsidiary	7	-	7
At 31 December 2015	(149)	(811)	(960)
Effect of movements in exchange rates	10	(164)	(154)
Transfers	–	–	–
Charge for the year	(197)	(148)	(345)
Elimination on disposals	41	113	154
At 31 December 2016	**(295)**	**(1,010)**	**(1,305)**
Net book amount			
At 31 December 2016	**539**	**206**	**745**
At 31 December 2015	638	305	943

13 Inventories

	2016 £'000	2015 £'000
Raw materials	**845**	1,348
Finished goods	**219**	1,467
Total inventories	**1,064**	2,815

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 2016 includes an impairment provision of £0.4 million (2015: £nil).

Notes to the consolidated financial statements continued

14 Trade and other receivables

	Notes	2016 £'000	2015 £'000
Trade receivables, gross		**11,304**	7,421
Allowances for doubtful debts	14.1	**(2,151)**	(1,691)
Trade receivables, net	14.2	**9,153**	5,730
Amounts recoverable on contracts		**2,912**	2,067
Other receivables		**220**	199
Prepayments		**933**	882
Corporation tax recoverable		**3**	1
VAT and taxation receivable		**–**	398
Total trade and other receivables		**13,221**	9,277

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.

14.1 Movement in allowance for doubtful debts

	2016 £'000	2015 £'000
At 1 January	**(1,691)**	(68)
Exchange differences	**(158)**	(10)
Amounts recovered in the year	**6**	–
Amounts written off in the year	**–**	43
Allowance made	**(308)**	(1,656)
At 31 December	**(2,151)**	(1,691)

As at 31 December 2016, the allowance for doubtful debts includes £2,065,000 (2015: £1,626,000) in respect of amounts owed by two entities in the Asia Pacific region. Provision has been made against these balances as their recoverability is uncertain.

14.2 Ageing of past due but not impaired receivables

	2016 £'000	2015 £'000
Neither past due nor impaired	**7,179**	3,506
Past due but not impaired:		
0 to 90 days overdue	**1,227**	920
More than 90 days overdue	**747**	1,304
Total	**9,153**	5,730

15 Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	**3,498**	5,392
Cash and cash equivalents	**3,498**	5,392

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:

	2016 £'000	2015 £'000
British Pound (GBP)	**320**	1,718
Euro (EUR)	**675**	1,151
US Dollar (USD)	**1,947**	2,216
Japanese Yen (JPY)	**335**	130
Canadian Dollar (CAD)	**221**	177
Cash and cash equivalents	**3,498**	5,392

16 Trade and other payables

	2016 £'000	2015 £'000
Payments received on account	**2,279**	2,017
Trade payables	**1,549**	2,148
Trade accruals	**2,919**	3,668
Other taxation and social security	**1,223**	661
Contingent consideration	**197**	–
Other payables	**72**	135
Total trade and other payables	**8,239**	8,629

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, under which the Group is required to pay additional amounts to the vendors of Geoplan based on the achievement of two separate performance milestones that may arise between 2014 and 2016, with a combined undiscounted range of outcomes between JPY nil and JPY 149 million (£nil to £892,000). During 2016, the liability has been reduced to £197,000 (2015: £448,000, presented as a non-current liability within note 18) with £355,000 released to the consolidated income statement and presented as an exceptional item.

17 Bank loans

In March 2016, a JPY 200 million facility with the Mizunho Bank was repaid in full.

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 on or before 31 December each year. £0.75 million of this facility was repaid in December 2016.

This loan is secured on the fixed and floating assets of the Group and attracts an interest charge of LIBOR + 3%. The loan 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, depreciation, amortisation or capitalisation of product development) as follows: 2016 £2.25 million negative, 2017 £nil, 2018 and beyond £1 million positive.

Notes to the consolidated financial statements continued

18 Other payables

	Notes	2016 £'000	2015 £'000
Contingent consideration	16	–	448
Property provisions		**179**	179
Rent deposit repayable		–	24
Total other payables		**179**	651

In September 2014, Ubisense Limited entered a new 10 year lease on the Group's headquarter offices. The property provision is a dilapidation provision to restore the office to its original state. It is included in fixtures and fittings within Property, plant and equipment and is being depreciated over the lease term.

19 Share capital and premium

	Number of ordinary shares of £0.02 each	Share capital £'000	Share premium £'000	Total £'000
Balance at 1 January 2015	25,062,842	501	28,051	28,552
Issued under share-based payment plans	446,293	9	67	76
Issued on placing to institutional shareholders	11,111,112	222	9,304	9,526
Change in year	11,557,405	231	9,371	9,602
Balance at 31 December 2015	36,620,247	732	37,422	38,154
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**

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

During the period, the Company issued 19,262,907 shares, increasing the total number of shares in issue from 36,620,247 to 55,883,154 as follows:
- 19,230,000 shares at £0.25 per share for a total gross consideration of £4,808,000 with share issue costs of £295,000 written off against share premium; and
- 32,907 shares as a result of options exercised with a weighted average exercise price of £0.14 per share for total cash consideration of £5,000.

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.

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

	2016 £'000	2015 £'000
Total share-based payments charge recognised in operating profit	**(20)**	54

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

	2016 £'000	2015 £'000
Net share-based payments credit recognised in equity	**(52)**	54

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

	2016 £'000	2015 £'000
Cumulative reserve credit for share-based payments	**823**	875

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 January 2015 Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	**Awards outstanding at 31 December 2016 Number**	Awards exercisable at 31 December 2016 Number
Options	2007	2008-10	2017	0.900	300	–	–	(300)	**–**	-
	2010	2011-13	2020	0.140	408,461	–	(32,907)	(25,826)	**349,728**	349,728
	2011	2012-14	2021	1.050	298,200	–	–	(184,000)	**114,200**	114,200
	2012	2013-15	2022	2.125	201,500	–	–	(110,500)	**91,000**	91,000
	2013	2014-16	2023	2.055	269,300	–	–	(160,500)	**108,800**	108,800
	2014	2015-17	2024	2.250	300,000	–	–	(230,000)	**70,000**	-
	2016	2017-19	2026	0.020	–	5,600,000	–	–	**5,600,000**	-
Total					1,477,761	5,600,000	(32,907)	(711,126)	**6,333,728**	663,728
Weighted average exercise price (£)					1.371	0.020	0.140	1.799	0.135	0.883

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 2 pence each in the Company with an exercise price set at the nominal value. The options will vest if the Company's share price to exceeds 70p for 60 consecutive calendar days between the 2nd and 3rd anniversary of issue and the period of employment continues for over 3 years.

20.4 Principal assumptions

No charge has been recognised in the 2016 financial statements in respect of share options granted during the year. The options were granted on 14 December 2016 and the Directors have assessed that the impact on the 2016 financial statements would be immaterial.

Notes to the consolidated financial statements continued

21 Operating lease commitments

Leases as lessee

At 31 December 2016, 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	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
No later than one year	**664**	606	**53**	59
Later than one year and no later than five years	**2,267**	2,320	**40**	113
Later than five years	**527**	1,282	**–**	–
Total	**3,458**	4,208	**93**	172

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

The Group has guaranteed rent bonds issued by its banks on its behalf totalling £122,000 as at 31 December 2016 (2015: £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 (%)
Ubisense Limited	UK	Location solutions	100	–
Ubisense GmbH	Germany	Location solutions	100	–
Ubisense SAS	France	Location solutions	100	–
Ubisense Inc.	US	Location solutions	100	–
Ubisense Solutions Inc.	Canada	Location solutions	100	–
Geospatial Systems Limited	UK	Non-trading	100	–
Ubisense Inc.	Japan	Intermediate holding company	100	–
Geoplan Company Limited*	Japan	Location solutions	77	23
Binary Star Developments K.K.*	Japan	Non-trading	100	–

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

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

23 Related party transactions

23.1 Remuneration of key personnel

Following the group restructure undertaken in 2015, key management have been assessed to be the Directors of the Group (Executive and Non-Executive) during the 2016 period.

The 2015 comparatives includes Directors (Executive and Non-Executive) and members of the Executive Management Team.

During the year, there was an average number of 6 key management personnel (2015: 11) and 7 personnel at 31 December 2016 (2015: 12). The compensation paid or payable to key management for employee services is shown below:

	2016 £'000	2015 £'000
Short-term employee benefits		
Wages and salaries	**572**	1,371
Social security costs	**48**	95
Other benefits	**1**	5
	621	1,471
Post-employment benefits		
Contributions to defined contribution pension arrangements	**22**	26
Share-based payments		
Equity-settled share-based payments	**–**	3
Total key management compensation	**643**	1,500

Included in the wages and salaries figure above are termination benefits of £149,000 (2015: £263,000) 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 2016 or 2015 other than noted below.

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

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 below. The main types of risks are market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

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

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.

Notes to the consolidated financial statements continued

24 Financial risk management continued

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

	Japanese Yen		US Dollars		Euros	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Assets	**–**	–	**509**	145	**201**	535
Liabilities	**–**	–	**(7)**	(62)	**–**	(1)

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 percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

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

	Japanese Yen		US Dollars		Euros	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Effect of a 5% strengthening in relevant exchange rate on:						
Income statement	**(25)**	(43)	**31**	(27)	**3**	(95)
Equity	**(25)**	(43)	**31**	(27)	**3**	(95)
Effect of a 5% weakening in relevant exchange rate on:						
Income statement	**25**	50	**(31)**	32	**(3)**	110
Equity	**25**	50	**(31)**	32	**(3)**	110

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 facilities of £3.25 million which are partially offset by cash held at variable rates. Interest is payable at LIBOR plus 3% on the £3.25 million outstanding at 31 December 2016 (2015: £4.5 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.

	2016 £'000	2015 £'000
Effect of a 0.5% decrease in interest rate on:		
Income statement	**24**	30
Equity	**24**	30
Effect of a 0.5% increase in interest rate on:		
Income statement	**(24)**	(30)
Equity	**(24)**	(30)

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 2016, one customer individually accounted for more than 10% of the trade receivables balance (31 December 2015: one).

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

Details of certain trade receivables at 31 December 2016 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 £3.25 million, of which £3.25 million was drawn-down at 31 December 2016 (2015: £9.1 million facility, £5.6 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 2016 (see note 14) exceed the current cash outflow requirements.

Notes to the consolidated financial statements continued

24 Financial risk management continued

As at 31 December 2016, 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 2016				
Trade and other payables	**7,763**	**476**	**42**	**–**
Bank loan		**750**	**2,500**	**–**
Other payables	**–**	**–**	**–**	**179**
As at 31 December 2015				
Trade and other payables	7,924	705	203	–
Bank loans	1,123	–	4,500	–
Other payables	–	–	472	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.

24.7 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 2016 of £3.25 million (31 December 2015: £9.1 million) all dominated in GBP (2015: £8.0 million GBP, £1.1 million JPY). At 31 December 2015, £3.25 million of the facilities were drawn (31 December 2015: £5.6 million of which £4.5 million GBP, £1.1 million JPY).

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	2016 £'000	2015 £'000
Financial assets			
Loans and receivables:			
– Trade receivables	14	**9,153**	5,730
– Amounts recoverable on contracts	14	**2,912**	2,067
– Other receivables	14	**223**	1,480
– Cash and cash equivalents	15	**3,498**	5,392
Total financial assets		**15,786**	14,669
Financial liabilities			
Amortised cost:			
– Trade payables	16	**1,549**	2,148
– Trade accruals	16	**2,919**	3,668
– Other payables	16	**3,574**	2,813
– Provisions	18	**179**	203
– Bank loans	17	**3,250**	5,623
Fair value:			
– Contingent consideration	16	**197**	448
Total financial liabilities		**11,668**	14,903

Independent auditor's report

Independent auditor's report to the members of Ubisense Group plc

We have audited the financial statements of Ubisense Group plc for the year ended 31 December 2016 which comprise the company balance sheet, the company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 35, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2016 and its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

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

20 March 2017

Company balance sheet

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investments in subsidiaries	3	**9,639**	9,691
Current assets			
Debtors	4	**11,874**	7,056
Cash at bank and in hand		**10**	10
		11,884	7,066
Creditors – amounts falling due within one year	5	**(5,939)**	(1,849)
Net current assets		**5,945**	5,217
Total assets less current liabilities		**15,584**	14,908
Net assets		**15,584**	14,908
Capital and reserves			
Called-up share capital	6	**1,118**	732
Share premium account	7	**41,554**	37,422
Share-based payment reserve	7	**823**	875
Profit and loss reserve	7	**(27,911)**	(24,121)
Equity shareholders' funds		**15,584**	14,908

The notes on pages 71 and 72 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 2016 of £3,790,000 (2015: £22,736,000).

The financial statements were approved by the Board of Directors on 20 March 2017 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 2016

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

The notes on pages 71 and 72 are an integral part of the Company financial statements.

Notes to the Company financial statements

1 Principal accounting policies

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

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

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

- Section 33 "Related party disclosures" not to show transactions with other wholly-owned companies in the Group headed by Ubisense Group plc.
- Section 7 Statement of Cash Flows not to prepare a cash flow statement for the parent company.
- Section 11/12 financial instrument disclosures

Share-based payments

The Company issues equity-settled share-based payments to certain employees of its subsidiaries. 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.

Investments in subsidiaries

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

Deferred taxation

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

2 Loss for the year

The Company does not have any employees (2015: nil). Directors' emoluments are disclosed in note 23 of the consolidated financial statements. The Directors were not remunerated by the parent company.

3 Investments in subsidiaries

	Investments in subsidiaries £'000
Cost and net book amount	
At 1 January 2016	9,691
Additions	2,573
Impairment	(2,573)
Capital contribution relating to share-based payments	(52)
At 31 December 2016	**9,639**

Additions and impairment

The 2016 additions of £2,573,000 relate to compensation of Ubisense GmbH for losses incurred during the year ended 31 December 2015 under a Domination Agreement. These additions were immediately impaired to reduce the carrying value of the investment in Ubisense GmbH to £nil (2015: £nil).

Notes to the Company financial statements continued

3 Investments in subsidiaries continued

Capital contribution

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

Further information about subsidiaries is provided in note 20 of the consolidated financial statements.

4 Debtors

	2016 £'000	2015 £'000
Amounts owed by subsidiary undertakings	**11,874**	7,056
	11,874	7,056

5 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade accruals	**24**	54
Amounts owed to subsidiary undertakings	**5,915**	1,795
	5,939	1,849

6 Share capital

	2016 Number	2015 Number	2016 £'000	2015 £'000
Allotted, called up and fully paid				
Ordinary shares of £0.02 each	**55,883,154**	36,620,247	**1,118**	732

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

7 Reserves

	Share premium £'000	Share-based payment reserve £'000	Profit and loss reserve £'000
Balance at 1 January 2016	37,422	875	(24,121)
Loss for the year	–	–	(3,790)
Reserve credit for equity-settled share-based payment	–	(52)	–
Premium on new share capital	4,427	–	–
Share issue costs	(295)	–	–
Change in year	4,132	(52)	(3,790)
Balance at 31 December 2016	**41,554**	**(823)**	**(27,911)**

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Shareholder information

Shareholder enquiries

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

Share price information

London Stock Exchange Alternative
Investment Market (AIM) symbol: UBI
Information on the Company's share price is available on the Ubisense Investor Relations website at:
www.ubisense.net

Investor relations

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Financial calendar

Financial year end 31 December 2016
Full year results announced 21 March 2017

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