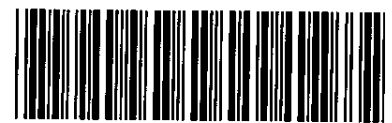


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**Sepura plc**  
**(Registered number 04353801)**  
**Annual Report and Accounts**  
**31 March 2017**

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## Strategic Report

The Directors are pleased to present their Strategic Report for the year ended 31 March 2017, which sets out:

- › A fair review of the business of the Group; the Group comprises Sepura plc and its subsidiaries, as listed in Note 5 of the Parent Company accounts.
- › A description of the principal risks and uncertainties facing the Group and how they are managed; and
- › A summary of the Group's approach to Corporate and Social Responsibility.

The results show that trading continued to be extremely challenging, following the trend set in the first half of the year. Reported revenues for FY17 were €110.2 million, compared to €189.7 million last year, reflecting:

- › The completion of the substantial one off Saudi Arabian contract in FY16 (which had contributed €28.7 million of revenues last year);
- › The changes to the Group's business model and the decision to withdraw from the DMR market that were announced in the Group's preliminary results for the year ended 1 April 2016;
- › Specific challenges facing the Group's customers in core markets that were announced in the Group's interim results for the six months ended 30 September 2016; and
- › Perceived uncertainty over the Group's future in the light of its financial performance and the Recommended Offer by Hytera Communications Corporation Limited to acquire the Company.

### Business model review

At the start of the year the Board undertook a thorough review of the Group's business model and explored ways of improving the cash generation of the business, and determined to undertake the following measures:

- › Improving sales phasing – the Group's revenue profile had historically been heavily weighted to the year-end, reducing visibility of earnings and necessitating increased inventory levels to support potential business. Reducing the Group's emphasis on year-end revenue by matching orders received from the Group's commercial partners to the delivery and payment schedules agreed with their end-users and placing restrictions on the approval of discounting arrangements and credit terms would provide better visibility of earnings and margin improvement;
- › Aligning manufacturing timescales with customer delivery schedules – The Group's Teltronic business had typically incurred certain costs relatively early in the contract period and recognised the associated revenues at that point. The Group has altered the Teltronic manufacturing process to manage working capital more effectively and as a result, product manufacturing now occurs later in the contract period than was previously the case with a resultant impact on the timing of revenue being recognised. Aligning manufacturing timescales more closely to customer requirements reduces stock holding and corresponding working capital requirements, shortening the Group's working capital cycle; and
- › Reducing credit risk profile – the Group's exposure to credit risk (including, where appropriate, aligning payment terms more closely to contract performance and/or product delivery and declining business until credit can be confirmed) is more actively managed, reducing exposure to delayed payment or non-payment of customer invoices.

### Withdrawal from DMR

In addition, the Board undertook a review of its DMR strategy and concluded it would not be possible to achieve further market penetration without significant additional investment. It therefore decided to withdraw from the DMR market, instead allocating the Group's resources to opportunities which are more immediately revenue and cash generative within the TETRA market, such as those within the North American region and the transportation sector.

### Specific challenges in core markets

Revenue for the year was also affected by specific challenges facing the Group's customers in core markets, including delayed refresh cycles and further uncertainty over the Emergency Services Network ("ESN") in the UK.

In a number of key markets customers were expected to refresh their ageing fleets of TETRA radios, which are 6-7 years old. It became clear in September that capital budgets were being reallocated to other priorities as robustness of the Group's products was such that their operational lives were being extended beyond the expected 5-6 years. Since the end of the year refresh cycles in some of these markets have commenced, which will make a positive contribution to the Group's FY18 performance.

## Strategic Report (continued)

At the same time, the UK market continued to face significant uncertainty as ESN, the proposed replacement for the UK national public safety TETRA network, faced further delays. Several of the Group's UK customers had been expected to commence purchasing ESN-ready devices later in the financial year, but TETRA and ESN device procurements have been deferred pending more precise information on the timing of transition to ESN.

The Group continues to support its UK customers through repair and warranty services, which partially mitigate the ongoing impact of these delays on the Group's results.

### **Perceived uncertainty associated with the acquisition by Hytera Communications Corporation Limited**

On 4 November 2016 the Company announced that it was in preliminary talks with Hytera Communications Corporation Limited ("Hytera") regarding a possible offer for the entire issued and to be issued share capital of the Company ("the Offer"). On 16 December 2016 the Board announced it was recommending a cash offer for the Company by Project Shortway Limited, a wholly-owned subsidiary of Hytera ("the Acquisition") and the Acquisition was subsequently completed on 25 May 2017; further information on the impact of the Acquisition since the end of the financial year are given in Note 34 to the consolidated financial statements.

In the intervening period uncertainty as to the timing of completion and the possible impact on Sepura's product portfolio and future development roadmap resulted in some customers delaying procurement pending the outcome of the Offer. The Group has subsequently secured some of this delayed business in the current financial year, and is addressing residual concerns amongst those remaining customers seeking additional reassurance.

### **Capital Raising and financing**

On 4 April 2016 the Group announced that it had experienced an increase in net debt from an expansion in working capital together with further costs relating to the Teltronic acquisition and additional investment to accelerate cost synergies. On 26 April 2016 the Group announced that it was in discussion with its debt providers and major shareholders concerning its level of indebtedness and on 27 June 2016 announced plans to raise gross proceeds of approximately £65.0 million by way of a Firm Placing and Placing and Open Offer on the basis of 1 new ordinary share for every 3 existing ordinary shares ("the Capital Raising"). The Capital Raising was completed on 18 July 2016.

In conjunction with the Capital Raising the Group reached agreement with its lenders for revised banking facilities to support the Group's future development. This agreement included a waiver of potential covenant breaches in respect of the quarter ended 30 June 2016, and the provision of additional short-term facilities which were subsequently repaid from some of the proceeds of the Capital Raising.

Subsequent to the Capital Raising, the trading challenges described above necessitated further discussions with the Group's lenders in November 2016. These culminated in agreement to defer debt payments due in the following 12 months and for management to explore strategic options to reduce the Group's leverage. The Board were already in discussions with Hytera concerning the Acquisition, pursuant to which the Group's syndicated borrowings were repaid upon completion.

### **Impact of reduced profitability on the carrying value of non-current assets**

As a result of the decision to withdraw from the DMR market, and the reduced forecast profitability of the Group in the light of the challenging trading during the 2017 financial year, the Group recorded impairments totaling €92.0 million against the carrying value of non-current assets in accordance with IAS36 "impairment of Assets".

### **Research and development**

The Group continued to invest in research and development, with a focus on maintaining product leadership. The most significant individual project remains the Group's next generation platform of both terminals and infrastructure, which culminated in the launch of the SC20 TETRA terminal in May 2016.

Gross expenditure on research and development decreased by 17% to €18.2 million (2016: €21.8 million), and represented 17% of revenues (2016: 11%). The reduction in the absolute level of expenditure reflects the synergies realised following the acquisition of Teltronic SAU in May 2015.

### **Operating (loss) profit**

The Group presents adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and adjusted operating (loss) profit as key performance measures in addition to the operating profit reported under IFRS. The Group considers that the exclusion of certain non-recurring or non-cash items provides an alternative measure of the underlying trading performance of the Group.

Adjusted EBITDA and adjusted operating loss were €(14.3) million and €(18.6) million (2016: adjusted EBITDA of €16.5 million adjusted operating profit of €12.4 million) respectively, reflecting the challenging trading described above.

## Strategic Report (continued)

### Non-recurring items

The Group has incurred a number of non-recurring items in the current period, totaling €108.7 million (2016: €26.6 million) and comprising:

- › €92.0 million of impairments against the carrying value of non-current assets, as described above
- › €0.7 million of impairment against the carrying value of inventories;
- › €9.9 million of costs, primarily professional fees, in connection with the Capital Raising as described above;
- › €4.1 million of restructuring costs incurred during the period as a result of the changes to the Group's business model;
- › €2.4 million in relation to the revised facilities put in place during the period, including the arrangement fee and write off of debt issue costs for the facilities that were the subject of these revisions;
- › €0.4 million credit for the net release of contingent consideration payable for the previous acquisitions of Fyde Micro Limited and Portalify Oy.

Non-recurring items in the prior period related to costs incurred in connection with the acquisition of Teltronic (€6.6 million), restructuring costs relating to the combined Group (€11.1 million), costs incurred in association with the Firm Placing, Placing and Open Offer (€1.5 million), non-cash impairment costs against the Group's investment in the DMR market (€9.4 million), write off of debt issue costs for facilities replaced in the period (€0.3 million), provision against outstanding receivables from a customer in Greece (€0.3 million) and a credit for the net release of contingent consideration of €2.6 million.

### Cash flows and financing

Net debt at the end of the period was reduced from €115.5 million to €93.0 million, reflecting the proceeds of the Capital Raising, the trading performance of the Group during the period and the following significant non-operating cash flows:

- › €1.8 million paid for acquisitions (2016: €122.0 million, primarily in relation to the acquisition of Teltronic SAU);
- › €6.5 million spent on capitalised development costs (2016: €16.4 million);
- › €2.2 million of other capital expenditure (2016: €12.0 million, including €6 million in relation to the Group's new headquarters near Cambridge); and
- › €6.4 million of interest and arrangement fees payable in respect of the Group's banking facilities (2016: €5.2 million).

## Strategic Report (continued)

### Principal risks and uncertainties

Risk and impact	Management strategy
<p><b>Technological change</b></p> <p>The Group's revenue and profitability are affected by the extent to which there is increasing demand for, and development by our competitors of, additional products and product features. For example, the adoption of 4G/LTE for the delivery of broad-band data services to consumers has led some Public Safety agencies, including those in the UK, to explore the possibility of creating equivalent data networks, using either planned commercial networks or constructing their own 4G private networks. Significant investments are made in new product development, and there can be no guarantee that the Group will be able to generate sufficient revenue to offset these development costs or to continue to make such investments. There are also associated risks relating to difficulties and delays in the development process of new products, and their acceptance by customers. If competitors successfully launch new products or features which the Group is unable to match then it could lose market share with a corresponding impact on future profitability and the Group's financial position.</p>	<p><b>Product Innovation</b></p> <p>While the existing 4G standard does not contain the protocols necessary for voice traffic, or the call prioritisation and similar functions required by Public Safety agencies, the Group is investing in new product development to position the Group for the likely future deployment of LTE and the recently launched "Next Generation" SC20 products incorporate a high speed data bearer making it the first TETRA hand-portable which can claim to be LTE data ready. This is part of an ongoing programme of identifying customer needs, and potential competitor advances, to ensure that the Group maintains a portfolio of market leading products. Development efforts are focused on features which meet a market requirement and are likely to generate sufficient revenue to fund their development.</p>
<p><b>Reliance on key markets or customers</b></p> <p>A significant percentage of revenue in each financial year is currently derived from a small number of end-user organisations, the majority of which are governmental organisations, in several key geographies.</p> <p>The timing of orders from these customers is influenced by a number of factors, including governmental investment decisions which may be affected by changes in political and economic conditions. This makes accurate predictions of the timing of future revenues more difficult. In the event that there is a delay to either the tendering process or the placing of orders following a successful bid, then revenues may not be generated within the originally forecast timeframe, with a consequential impact on the profitability of the Group in any given period.</p>	<p><b>Growing our addressable market</b></p> <p>The Group's previous focus on diversification has resulted in a reducing significance of individual contracts or customers relative to the Group's total operations. The Group continues to enter new markets which will provide further diversification. Furthermore, the increasing role of regular add-on and replacement business also helps to mitigate the impact of significant delays in securing new customers.</p>
<p><b>Credit risk</b></p> <p>Reliance on key markets or customers may also result in credit risk being concentrated within a small group of customers and default by a material customer could have a material impact on the Group's results. Following the global expansion of the Group's activities it now operates in countries and with customers that may give rise to higher credit risk exposure than that to which it has previously been exposed.</p>	<p><b>Working with the right partners</b></p> <p>The Board has implemented policies that require appropriate credit checks on potential customers and customer orders are checked against pre-set requirements before acceptance. Formal credit control procedures are applied subsequent to invoicing customers, with letters of credit and payments in advance obtained where appropriate. Such rigorous procedures cannot completely mitigate credit risk, and the Group provides against significant overdue accounts where recoverability of the debt is considered sufficiently uncertain. The maximum exposure to credit risk is limited to the carrying value of trade and other receivables.</p>
<p><b>Competition</b></p> <p>There is strong competition in the markets in which the Group operates, particularly in relation to government procurement tendering processes which rely on a combination of technical performance and price. A significant reduction in the prices achieved for the Group's products could have a material impact on the Group's margins and profitability.</p>	<p><b>Investing in product leadership</b></p> <p>The Group's ability to compete depends on its high-quality product range and its reputation for customer service as well as the ongoing programme of work to reduce product costs. The Board regularly reviews the level of investment in these areas in the light of changes in the competitive landscape, to ensure that the Group can continue to compete effectively.</p>

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**Risk and impact**

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**Management strategy**

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**Managing working capital**

A specific consequence of trading in a difficult financial situation is the need to manage carefully the working capital of the business through controlling inventory levels and ensuring that customers adhere to credit terms. If these procedures do not result in working capital converting into cash on a timely basis, the Group might need to secure additional funding to meet its short-term cash requirements.

**Securing adequate financing**

The Board undertook the Capital Raise in FY17 to strengthen the Group's balance sheet and, in conjunction with the Group's banking facilities, provide additional working capital for the Group as it progressed through the year. Pursuant to the Acquisition, the Company has repaid its syndicated banking facilities and received confirmation of ongoing financial support from its ultimate parent undertaking. The Board also established and maintains regular reviews of the Group's cash position and forecast cashflows to ensure adequate headroom is in place for the Group's operational requirements.

**Foreign currency**

The Group has an international customer base and purchases products and services in a range of currencies. The reported revenues, costs, assets and liabilities of the Group are therefore affected by fluctuations in prevailing rates of exchange between these currencies. This affects comparisons of current year results to previous periods, where equivalent underlying transactions are reported at differing rates, and may affect future results if assets and liabilities are subject to revaluation over time.

**Effective hedging of exchange rate exposures**

The Company's presentational and functional currency is the Euro, reflecting the relative contribution of Euro-denominated revenues. The Board has implemented policies that require regular reviews of the Group's forecast currency requirements, in conjunction with a rolling programme of monthly forward contracts to hedge forecast net cash flows in major currencies. Where these hedges are deemed to be effective any unrealised gains or losses on the hedges are recognised in equity rather than in the consolidated income statement, again reducing possible volatility in reported earnings arising from changes in exchange rates. Furthermore, following the acquisition of Teltronic the Group's GBP revenues and costs are falling as a proportion of the Group's overall activities while increasing USD revenues from the North American market provide a natural hedge against USD product costs.

**Information security**

The Group regards information within the business as a key asset and recognises the risk and impact on the business of breaches to the integrity of information relating to the business.

**Effective protection of information security and integrity**

The Group has in place systems and processes for the classification and control of access to information within a number of elements of the business. The information security standard ISO27000 is a reference frame for all information security management systems and is the framework against which the Group manages information security.

**Supply chain risk and product recall**

The Group is dependent on outsourced electronic manufacturing companies for the manufacture of substantially all of our current products and on a small number of suppliers for key components. Any failure or inability of these companies to supply the Group could adversely affect its business. The Group's supply chain is complex, and the use of third-party suppliers and service providers could adversely affect product quality, delivery schedules or customer satisfaction. Any of these could have an adverse effect on the Group's financial results.

**Monitor manufacturing and component supply chain**

The Group mitigates supply chain risk by employing a number of supplier monitoring mechanisms and control measures which address business viability, production quality and component obsolescence. Automated and manual product testing is an integral part of all projects and manufacturing. In addition, all third party products undergo conformance testing and compliance checks.

## Corporate Social Responsibility

The Board takes Corporate Social Responsibility seriously and is committed to advancing related policies, systems and initiatives across all areas of the business. These areas primarily include ethical behaviour, concern for employee welfare, health and safety, care for the environment and community involvement.

Considerable efforts are made to communicate effectively with all stakeholders who may have an interest in the Group's CSR activities, including our shareholders, customers, suppliers, partners and employees. The Company's website is one of the main routes for providing information to interested parties and providing us with constructive feedback.

### **Ethical behaviour**

In support of the Group's core values of integrity, excellence, care, teamwork and commitment, Sepura expects that its business around the world is always conducted to high ethical standards of practice and legal principles. To that end, all employees and business partners are also expected to demonstrate high standards of professionalism and integrity at all times when conducting business on the Company's behalf.

A Code of Business Conduct and Ethics (including a whistle-blowing policy) covering the whole of the business and various stakeholder interests is in place and is regularly reviewed and reiterated to staff and business partners.

### **Human rights**

The Group respects all human rights and conducts its business in adherence to all relevant government guidelines, and takes all practical steps to ensure that its products are not supplied to organisations that may use them to advance terrorism, internal repression or otherwise abuse human rights.

### **Employees**

As a business driven largely by technical development and innovation, the Group's main assets lie in the talents and skills of the people it employs. Consequently, it aims to attract, retain and motivate the highest calibre of employees, both technical and non-technical, by encouraging and rewarding high performance through competitive remuneration and incentive arrangements. Sepura continues to be an "Investor in People" accredited employer.

Acknowledging that an environment that fosters innovation and collaboration is critical to the Group's success, efforts are made to identify and provide further learning, training and development opportunities for all employees. These are structured so as to align organisational objectives with personal career aspirations. Formal performance reviews, including 360° appraisals, are conducted annually.

Similarly, the importance of two-way communication is recognised, particularly as it relates to the business and its performance. Employee involvement is actively encouraged through a Staff Council and the Group keeps employees regularly informed of the Group's activities and performance through team briefings, direct access to managers and Directors at all levels and by periodic presentations to all staff.

### **Equality and diversity**

The split of staff by gender is shown below. Sepura is committed to providing equality of opportunity to all existing and prospective employees without unlawful or unfair discrimination. In addition, the Board is supportive of the employment and advancement of disabled persons. The Group gives full and fair consideration to the applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group.

	Male	Female
Directors	8	-
Senior managers	42	3
Other employees	529	120

### **Health and safety**

The Board is committed to protecting the health and safety of employees, and third parties who visit the Group's sites, as well as having a positive influence on the supply chain throughout the world.

The Group is legally compliant and, where appropriate, works to exceed these requirements to provide safe working environments and a robust programme of occupational health management.

## Corporate Social Responsibility (continued)

### Greenhouse gas emissions

The total emissions and intensity ratios for the last financial year, together with the year that formed the baseline year from which progress will be tracked, are shown above.

	2017			2016		
	Tonnes of CO <sub>2</sub>	Tonnes of CO <sub>2</sub> per €1m of revenue	Tonnes of CO <sub>2</sub> per employee	Tonnes of CO <sub>2</sub>	Tonnes of CO <sub>2</sub> per €1m of revenue	CO <sub>2</sub> per employee
Scope 1: Direct emissions	223	2.0	0.3	86	0.5	0.1
Scope 2: Indirect emissions	1,437	13.0	2.1	1,280	6.7	1.5
Total Scope 1 and Scope 2 emissions	1,660	15.0	2.4	1,366	7.2	1.6

Sepura is committed to reporting its total carbon emissions based on the Scope 1 and 2 Greenhouse gas emissions from across the Group. A "financial control" approach has been adopted in conjunction with the "GHG Protocol Corporate Accounting and Reporting Standard (revised edition)" and emission factors from UK Government's "GHG Conversion Factors for Company Reporting 2015" to determine the Group's total greenhouse gas emissions, based on detailed metrics from each of the Group's locations where they are available. Data from several smaller offices, based in serviced premises, has been excluded on the grounds of materiality as the data is not available.

Three UK offices were closed between October 2015 and March 2016, while the acquisition of Teltronic in 2016 has had a significant impact on the figures disclosed above as a result of its manufacturing facilities.

### Environmental care

As a worldwide company, Sepura understands the importance of its role in minimising the environmental impact of its operations, providing resources to support these principles and associated environmental initiatives.

An Environmental Management System (ISO14001) enables management to focus on areas where the Group's impact can be positively managed or influenced. Targets are set, against which management are measured, driving continuous improvement in resource conservation and the prevention of pollution throughout the life-cycle of the Group's products. Particular focus is placed on conserving resources through better energy efficiency, reduction of travel emissions and recycling:

- › Promoting sustainable design principles in the development of new products and packaging;
- › Fostering a positive culture amongst employees, customers and the Group's supply chain by the development and communication of clear policies, and the promotion of good practice;
- › Minimising the Group's impact on the communities in which it operates through engagement with local organisations and raising employee awareness; and
- › Using Environmental Management Systems to provide a framework for setting, evaluating and reporting environmental performance.



**Richard Smith**  
Chief Financial Officer  
28 September 2017



## Directors' Remuneration Report

# Annual Statement

This report, which has been prepared on behalf of the Board for the financial year ended 31 March 2017, sets out the remuneration policy for the Directors of the Company in respect of the year ended 31 March 2017. In accordance with the shareholder voting and disclosure requirements published by the Department for Business, Innovation and Skills in June 2013, this report has been divided into three sections:

- › This Annual Statement, which demonstrates how performance has linked to reward and summarises the decisions made by the Remuneration Committee in the year;
- › The Remuneration Policy Report, which sets out the Group's policy on the remuneration of Executive and Non-Executive Directors which, following shareholder approval, became effective from the 2014 AGM; and
- › The Annual Report on Remuneration, which discloses details of the Remuneration Committee, how the remuneration policy will operate for the period ending 31 March 2018 ("FY18") and how the policy was implemented in the period ended 31 March 2017 ("FY17").

### Remuneration policy and reward for FY17

As reported last year, in light of the fall in the Company's share price Gordon Watling requested that he be paid a reduced salary of £350,000 for the foreseeable future. This reduction also applied to the calculation of his pension, bonus and LTIP grants and will remain in place until it is determined that it would be appropriate to revert to his contractual salary level, which may be done in stages.

On 12 September 2016 Gordon Watling notified the Board that he had received medical advice to take an immediate and extended period of absence, in order to recover fully from injuries sustained in an accident earlier in the year. Subsequent salary payments to Gordon Watling by the Group reflect the terms of the Group's healthcare insurance.

No payments have been made or are due to any Directors under the terms of the FY17 Short-Term Incentive Plan ("STIP").

The Group's FY16 results in respect of adjusted EBITDA formed the basis for one third of the FY14 Long-Term Incentive Plan ("LTIP") granted in July 2013, which vested during FY17. The minimum adjusted EBITDA target was met, resulting in vesting of 10% of the maximum for this part of the award. Gordon Watling surrendered his entitlement in respect of his award.

On 5 August 2016 grants were made to the Executive Directors under the Group's LTIP arrangements, with associated performance targets as set out in last year's Annual Statement. All of these awards lapsed upon the Acquisition of the Group.



**Richard Smith**  
Chief Financial Officer  
28 September 2017

## Remuneration Policy Report

The remuneration policy for the Group, as detailed in the Group's FY16 Annual Report, became formally effective from the Company's 2014 AGM, and was in place from that date until the Acquisition of the Group and its subsequent delisting in May 2017.

Following the Acquisition the Group's policy on the remuneration of individual Directors will be determined by reference to the operational requirements of the new ultimate controlling party.

# Annual Report on Remuneration

## **Base salary**

The base salary for each Executive Director was determined by the Remuneration Committee taking into account the role, responsibilities, performance and experience of the individual. When setting these base salary levels the Remuneration Committee took into account the performance of the individual, the Company's particular circumstances and market data on salary levels for similar positions in comparable companies.

The base salary level for the Chief Executive Officer was reduced to £350,000 as noted in the Annual Statement above. The base salary level for the Chief Financial officer was increased by 5% from £300,000 to £315,000 with effect from 1 July 2016.

## **Benefits in kind and pension**

Non-pension benefits comprised life assurance and private medical insurance cover.

Executive Directors will continue to be eligible to participate in a defined contribution group personal pension plan into which the Company contributes on behalf of participating individuals. Alternatively, an equivalent salary supplement may be provided. The pension contributions for Gordon Watling and Richard Smith for the coming year are currently anticipated to remain at 10% of salary. None of the Executive Directors has any entitlement to participate in a defined benefits pension scheme.

## **Consideration by the Directors of matters relating to Directors' remuneration**

All decisions with regard to the remuneration of the Executive Directors were taken by the Remuneration Committee. This committee comprised Nigel Smith (Chairman) and Gordon Stuart. The Committee was advised by its own remuneration advisor, New Bridge Street (part of Aon plc), who had the requisite experience, resources and independence to advise the committee. New Bridge Street is a signatory to the Remuneration Consultants' Group Code of Conduct for UK Remuneration Advisors and had no other relationship with the Company or its Executive Directors. New Bridge Street's fees for the year totaled €27,000 (2016: €39,000) for services principally relating to advice on the Company's share schemes and executive remuneration.

## Annual Report on Remuneration (continued)

### Tables for Annual Report on Remuneration

*The following information is audited*

*Total remuneration received by Directors*

The table below sets out the individual remuneration of the Directors who served during the period ended 31 March 2017, together with equivalent sums received in the prior year.

£'000	Salary and fees	Taxable benefits	Annual bonus	Long-term incentives	Pension	Total
<b>Executive Directors</b>						
<b>David Barrass<sup>1</sup></b>						
2017	176	–	–	–	–	176
2016	–	–	–	–	–	–
<b>Gordon Watling<sup>2</sup></b>						
2017	383	1	–	–	32	416
2016	398	–	–	665	42	1,105
<b>Richard Smith<sup>3</sup></b>						
2017	311	1	–	–	31	343
2016	75	–	75	–	8	158
<b>Non-Executive Directors</b>						
<b>Alan Lovell<sup>4</sup></b>						
2017	88	–	–	–	–	88
2016	–	–	–	–	–	–
<b>Andrew Leeser<sup>4</sup></b>						
2017	14	–	–	–	–	14
2016	–	–	–	–	–	–
<b>Slon Kearsey</b>						
2017	40	–	–	–	–	40
2016	40	–	–	–	–	40
<b>Gordon Stuart</b>						
2017	45	–	–	–	–	45
2016	45	–	–	–	–	45
<b>Nigel Smith</b>						
2017	45	–	–	–	–	45
2016	45	–	–	–	–	45
<b>Former Directors</b>						
<b>Russell King<sup>5</sup></b>						
2017	78	–	–	–	–	78
2016	100	–	–	–	–	100
<b>John Hughes<sup>6</sup></b>						
2017	–	–	–	–	–	–
2016	60	–	–	–	–	60
<b>Steve Chamberlain<sup>6</sup></b>						
2017	–	–	–	–	–	–
2016	143	–	–	392	14	549

1 Appointed on 24 October 2016

2 On extended leave of absence from 12 September 2016

3 Appointed on 4 January 2016

4 Appointed on 21 November 2016

5 Appointed Chairman on 7 September 2015 and resigned from the Board on 24 October 2016

6 John Hughes and Steve Chamberlain retired on 7 September 2015 and 4 January 2016 respectively

## Annual Report on Remuneration (continued)

### Annual bonus for FY17

No annual bonuses were awarded to Executive Directors in respect of FY17.

### LTIP performance

Mr Watling surrendered his entitlement in respect of the LTIP award granted on 31 July 2013 which would otherwise have vested during the year.

### Share awards granted in the year

The following share awards were granted to Directors during FY17:

	Type of award	Basis of award granted	Face value of award (£'000)	Share price used to determine awards	Number of shares granted	% of face value that would vest at threshold performance	Vesting determined by performance over
Gordon Watling	LTIP	100% of salary	350	£0.57	615,655	10%	3 years
Richard Smith	LTIP	120% of salary	378	£0.57	664,907	10%	3 years

### Outstanding LTIP Awards

Details of LTIP awards granted to Directors outstanding at the end of the period are set out below. All of these lapsed following the Acquisition.

Director	Scheme	Grant date	Exercise price	No. of shares at 1 April 2016	Granted during the year	Surrendered during the year	Lapsed during the year	No. of shares at 31 March 2017	End of performance period	Exercise period
Gordon	FY14	10 June 2013	-	268,282	-	(14,007)	(254,275)	-	31 July 2016	-
Watling	FY15	17 June 2014	-	624,782	-	-	-	624,782	50% 16 June 2017 50% 16 June 2018	-
	FY16	13 August 2015	-	316,698	-	-	-	316,698	12 August 2018	-
	FY17	5 August 2016	-	-	615,655	-	-	615,655	5 August 2019	-
Richard	FY16	4 January 2016	-	196,990	-	-	-	196,990	12 August 2018	-
Smith	FY17	5 August 2016	-	-	664,907	-	-	664,907	5 August 2019	-

Performance targets are disclosed above or, in respect of earlier awards, in prior Remuneration Reports.

## Annual Report on Remuneration (continued)

### Directors' interests

Directors' interests in the shares of the Company at the end of the period and the date of this report were as follows:

Director	Beneficially owned at 31 March 2017	Beneficially owned at the date of this report
David Barrass	—	—
Gordon Watling	609,224 <sup>1</sup>	—
Richard Smith	—	—
Alan Lovell	—	—
Andrew Leaser	—	—
Sion Kearsey	10,433,657	—
Gordon Stuart	21,333	—
Nigel Smith	28,444	—

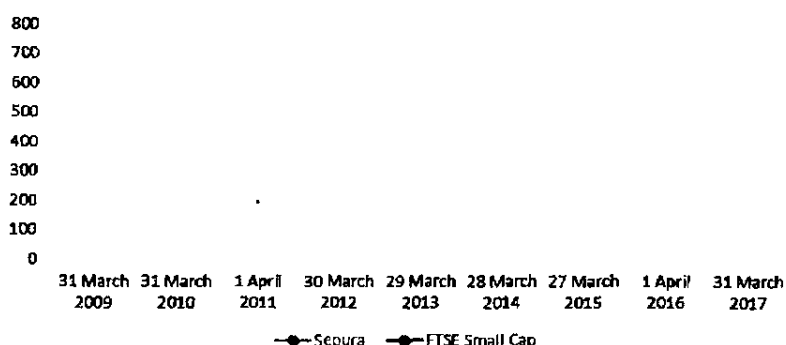
1 Included in Mr Watling's holding are 266,929 shares held by his wife

Save as disclosed, none of the Directors nor any person connected with a Director has any interest in the shares or loan capital of the company or any subsidiary understandings.

*The following information is unaudited*

### Performance Graph and CEO Remuneration

The following chart presents the Company's TSR over the past eight years compared to the FTSE SmallCap index excluding investment trusts.



The CEO's total remuneration over the same period has been as follows:

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Total remuneration (£'000s)	257	245	320	559	533	1,242	1,105	416 <sup>1</sup>
Annual bonus (%)	5%	0%	0%	67%	71%	20%	0%	0%
LTIP vesting (%)	0%	0%	0%	0%	0%	67%	70%	0%

1 Mr Watling has been on an extended leave of absence since 12 September 2016

### Changes in CEO remuneration

The CEO received an increase in salary during FY16, although he subsequently requested a reduced salary in light of the fall in the Company's share price as described above. This compares to other employees as follows:

		% change
Chief Executive	Salary <sup>1</sup>	-4%
	Benefits	-21%
	Bonus	-
All employees (averaged)	Salary	+14%
	Benefits	+2%
	Bonus	-

1 Based on actual remuneration received for the financial year; Mr Watling has been on an extended leave of absence since 12 September 2016

## Annual Report on Remuneration (continued)

### Relative importance of spend on pay

Overall staff costs decreased by 4% during FY17, reflecting the impact of weaker Sterling (the currency in which the majority of the Group's payroll cost is incurred) together with lower headcount as a result of the restructuring undertaken during the prior and current periods. This decrease in overall staff costs can be seen in the context of the change in other relevant metrics as shown below:

	FY17 €m	FY16 €m	% change
Staff costs	49.8	51.8	-4%
Revenue	110.2	189.7	-42%
Gross profit	43.8	70.8	-38%
R&D expenditures	18.2	21.8	-17%
Adjusted operating (loss) profit	(18.6)	12.4	-250%
Dividends and share repurchases	-	8.8	-100%

### Shareholder voting

Shareholders voted overwhelmingly at the 2014 AGM in favour of adopting both the Company's Remuneration Policy, and at the 2016 AGM in favour of adopting the Annual Statement and Annual Report on Remuneration in respect of the year ended 1 April 2016:

	Remuneration Policy		FY16 Annual Statement and Annual Report on Remuneration	
	Votes	Percentage of votes	Votes	Percentage of votes
Votes cast in favour	110,528,646	99.97%	210,247,817	94.92%
Votes cast against	38,299	0.03%	11,259,304	5.08%
Total votes cast	110,566,945	100%	221,507,121	100%
Votes withheld	2,000	-	-	-

# Directors' Report

The Directors have pleasure in presenting their report and the audited financial statements for the period ended 31 March 2017.

## Strategic Report

The Strategic Report on pages 1 to 7 sets out a fair and balanced review of the Group's performance during the period and of its position at the period end, including commentary on its likely future development and prospects, while information on principal risks and uncertainties is given on pages 4 and 5. Such information should be read in conjunction with this Report. The Directors' Remuneration Report details the remuneration arrangements. The Group's approach to business ethics, employee welfare and practice, health and safety, environmental and community matters is summarised on pages 6 and 7. All these sections form part of this Directors' Report into which they are incorporated by reference.

## Results and dividends

The audited financial statements of the Group and of the Company for the period under review are set out on pages 19 to 54 and pages 57 to 65 respectively.

No dividends have been paid or are proposed in respect of the period under review.

## Research and development

Product development and innovation, principally, but not solely, related to TETRA technology and products, remain key strategies for maintaining and improving the Group's competitive position and therefore they continue to be strong priorities. The key objectives are new product development, improved functionality and extended application, all designed to enhance benefits for the end-user. Expenses incurred are capitalised when it is probable that future economic benefits will be attributable to the asset and that these costs can be measured reliably.

The Group's commitment to this vital area is highlighted by the €18.2 million of development spend during the period, representing 17% of sales (2016: €21.8 million and 11% of sales). The Group will continue to commit a significant amount of resource and expenditure, as appropriate, to research and development.

## Financial Instruments

Details of the Group's objectives and policies on financial risk management, and of the financial instruments currently in use, can be found in Note 30 to the consolidated financial statements.

## Employment of disabled persons

The Group's policy regarding the hiring, continuing employment and training, career development and promotion of disabled persons is set out on page 6.

## Employee consultation

Details of employee consultation are set out on page 6.

## Share capital

The Company has a single class of share which is divided into Ordinary shares of £0.0005 each with all of the Ordinary shares ranking *pari passu*. Further information regarding the Company's share capital is set out in Note 25 to the consolidated financial statements.

## Directors' Report (continued)

### Board of Directors

The Directors of the Company who served throughout the period and up to the date of signing of this Annual Report (except where noted) were:

Gordon Watling	(On extended leave of absence since 12 September 2016)
Richard Smith	
Steve Barber	(Appointed 11 September 2017)
Duncan Crouch	(Appointed 11 September 2017)
Alan Lovell	(Appointed on 24 October 2016 and resigned on 24 May 2017)
David Barrass	(Appointed on 24 October 2016 and resigned on 24 May 2017)
Andrew Leaser	(Appointed on 21 November 2016 and resigned on 24 May 2017)
Russell King	(Resigned on 24 October 2016)
Ston Kearsey	(Resigned on 24 May 2017)
Nigel Smith	(Resigned on 24 May 2017)
Gordon Stuart	(Resigned on 24 May 2017)

### Directors' indemnity arrangements

The Company has purchased and maintained throughout the period to the date of this Report, and intends to do so going forward, Directors' and Officers' liability insurance in respect of itself and its Directors.

### Political donations

At the 2016 AGM, shareholders gave authority (covering the period up to the conclusion of the 2017 AGM or 27 September 2017, whichever is earlier) for the Company to make political donations and incur political expenditure up to a maximum aggregate sum of £100,000 as a precautionary measure in light of the wide definitions contained in the Political Parties Elections and Referendums Act 2000. No payments were made during the period or the prior period.

### Greenhouse gas emissions

Disclosures in respect of greenhouse gas emissions are given on page 7.

### Employee share incentive plans

The Company had in place for its Executive Directors and employees the Sepura 2008 Long-Term Incentive Plan ("LTIP") under which awards were granted during the period. Details of this share plan can be found in the Directors' Remuneration Report and Note 26 to the consolidated financial statements.

The Company also had in place a Savings-Related Share Option Scheme (based on HMRC Guidelines) ("Sharesave Scheme"). This incentive plan, which encouraged share ownership amongst Sepura employees, was launched in September 2008.

### Related party transactions

There were no related party transactions with Directors, during either the current or previous period, other than:

- › their remuneration;
- › £155,000 of fees were charged by Corporate Development Partnership Limited during the period in respect of services provided by Andrew Leaser following his appointment as a Director, of which £11,000 was outstanding at the end of the year; and
- › €6,000 of fees paid in the prior period to a subsidiary of TMF Group, of which Gordon Stuart is a Director, in relation to the incorporation of a Spanish holding company.

### Going concern

After making due enquiry, and having considered the Group's budget for the coming year and a letter of support from the Group's parent undertaking, the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements of both the Group and the Company.

### Disclosure of information to auditors

Each of the Directors of the Company at the time when this Report was approved confirmed that:

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

This confirmation is given in accordance with section 418(2) of the Act.



## Directors' Report (continued)

### Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the Directors are required to:

- › select suitable accounting policies and then apply them consistently;
- › state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- › make judgements and accounting estimates that are reasonable and prudent; and
- › prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

The Directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In the case of each Director in office at the date the Directors' Report is approved:

- › so far as the Director is aware, there is no relevant audit information of which the Group and parent company's auditors are unaware; and
- › they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company's auditors are aware of that information.

### Overseas branches

The Company conducts some of its overseas operations through branches in Malaysia, Argentina and Dubai.

### Post balance sheet events

Details of important events affecting the Company since 31 March 2017 are disclosed in Note 34 to the consolidated financial statements.

On behalf of the Board



Richard Smith  
Chief Financial Officer

9000 Cambridge Research Park  
Beach Drive  
Waterbeach  
Cambridge  
CB25 9TL

Registered in England No. 04353801  
28 September 2017

# Independent Auditors' Report to the Members of Sepura plc

## Report on the Group financial statements

### Our opinion

In our opinion, Sepura plc's Group financial statements (the "financial statements"):

- › give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of its loss and cash flows for the year then ended;
- › have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- › have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- › the Consolidated Balance Sheet as at 31 March 2017;
- › the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- › the Consolidated Statement of Cash Flows for the year then ended;
- › the Consolidated Statement of Changes in Equity for the year then ended; and
- › the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## Opinions 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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- › the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

## Other matters on which we are required to report by exception

### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Independent Auditors' Report to the Members of Sepura plc (continued)

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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- › whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- › the reasonableness of significant accounting estimates made by the Directors; and
- › the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

### **Other matter**

We have reported separately on the parent company financial statements of Sepura plc for the 52 week period ended 31 March 2017 and on the information in the Directors' Remuneration Report that is described as having been audited.



**Matthew Mullins (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory  
Auditors  
Cambridge  
28 September 2017

# Consolidated Income Statement

		2017			2016		
	Note	Before non-recurring items €'000	Non-recurring items <sup>1</sup> €'000	Total €'000	Before non-recurring items €'000	Non-recurring items <sup>1</sup> €'000	Total €'000
Revenue	6	110,168	—	110,168	189,723	—	189,723
Cost of sales		(65,572)	(761)	(66,333)	(112,885)	(6,051)	(118,936)
Gross profit		44,596	(761)	43,835	76,838	(6,051)	70,787
Selling, marketing and distribution costs		(26,343)	(608)	(26,951)	(28,320)	(3,083)	(31,403)
Research and development costs		(22,168)	(9,382)	(31,550)	(13,695)	(10,520)	(24,215)
Administrative expenses		(32,072)	(95,599)	(127,671)	(24,292)	(6,716)	(31,008)
Operating (loss) profit		(35,987)	(106,350)	(142,337)	10,531	(26,370)	(15,839)
Financial income	11	876	—	876	948	—	948
Financial expense	12	(5,349)	(2,387)	(7,736)	(3,911)	(218)	(4,129)
Net financial expense		(4,873)	(2,387)	(7,060)	(2,963)	(218)	(3,181)
(Loss) profit before income tax	8	(40,860)	(108,737)	(149,397)	7,568	(26,588)	(19,020)
Income tax (expense) credit	13	(7,992)	4,199	(3,793)	3,518	4,650	8,168
(Loss) profit for the period attributable to owners of the parent		(48,652)	(104,538)	(153,190)	11,086	(21,938)	(10,852)

<sup>1</sup> Non-recurring items in the current period are set out in Note 7 and relate to impairment provisions, the costs of the Capital Raising, the net movement in contingent consideration in relation to the acquisition of Fyde Micro Limited, the acceleration of IFRS2 share option costs and restructuring costs.

Non-recurring items in the prior period relate to the acquisition of Teltronic SAU and subsequent restructuring of the Group, costs associated with the equity raise, the net movement in contingent consideration in relation to the acquisitions of Portality OY and Fyde Micro Limited, impairments relating to the DMR business, costs associated with the 2016 equity raise, and a provision against outstanding receivables due from a customer in Greece.

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

	2017 €'000	2016 €'000
Loss for the period	(153,190)	(10,852)
<b>Other comprehensive income (expense):</b>		
Exchange translation*	726	(533)
Cash flow hedges – gross	1,908	(4,549)
Cash flow hedges – taxation	(319)	714
Cash flow hedges, net of taxation*	1,589	(3,835)
Other comprehensive income (expense)	2,315	(4,368)
<b>Total comprehensive expense for the period attributable to owners of the parent</b>	<b>(150,875)</b>	<b>(15,220)</b>

\* These items may be reclassified to the Income Statement if certain conditions are met.

# Consolidated Statement of Changes in Equity

	Note	Ordinary share capital €'000	Share premium €'000	Other reserves €'000	Retained earnings (Accumulated losses) €'000	Total equity €'000
At 28 March 2015		79	999	(206)	83,750	84,622
Loss for the period		–	–	–	(10,852)	(10,852)
Other comprehensive expense for the period		–	–	(533)	(3,835)	(4,368)
<b>Total comprehensive expense</b>		–	–	(533)	(14,687)	(15,220)
<b>Transactions with owners</b>						
Tax on share option schemes	17	–	–	–	(696)	(696)
Employee share option schemes: value of employee services	26	–	–	–	2,840	2,840
Equity dividends paid	14	–	–	–	(6,384)	(6,384)
Issue of shares, net of expenses	25	31	77,423	–	–	77,454
Treasury shares – purchase of own shares	25	–	–	–	(5,463)	(5,463)
Treasury shares – issue of shares to settle employee share options	25	–	–	–	703	703
<b>Total transactions with owners</b>		<b>31</b>	<b>77,423</b>	<b>–</b>	<b>(9,000)</b>	<b>68,454</b>
At 1 April 2016		<b>110</b>	<b>78,422</b>	<b>(739)</b>	<b>60,063</b>	<b>137,856</b>
Loss for the period		–	–	–	(153,190)	(153,190)
Other comprehensive income for the period		–	–	726	1,589	2,315
<b>Total comprehensive income (expense)</b>		<b>–</b>	<b>–</b>	<b>726</b>	<b>(151,601)</b>	<b>(150,875)</b>
<b>Transactions with owners</b>						
Tax on share option schemes	17	–	–	–	(2,993)	(2,993)
Employee share option schemes: value of employee services	26	–	–	–	2,733	2,733
Issue of shares, net of expenses	25	113	73,634	–	–	73,747
Treasury shares – issue of shares to settle employee share options	25	–	–	–	1	1
<b>Total transactions with owners</b>		<b>113</b>	<b>73,634</b>	<b>–</b>	<b>(259)</b>	<b>73,488</b>
<b>At 31 March 2017</b>		<b>223</b>	<b>152,056</b>	<b>(13)</b>	<b>(91,797)</b>	<b>60,469</b>

Other reserves comprises cumulative exchange translations.

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

Of Sepura Plc, Company number 04353801

	Note	31 March 2017 €'000	1 April 2016 €'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	15	79,172	177,438
Property, plant and equipment	16	16,956	23,316
Deferred tax asset	17	6,115	10,913
<b>Total non-current assets</b>		<b>102,243</b>	<b>211,667</b>
<b>Current assets</b>			
Inventories	18	24,050	26,784
Trade and other receivables	19	71,205	84,252
Restricted cash	20	-	3,925
Cash and cash equivalents	21	4,180	2,254
<b>Total current assets</b>		<b>99,435</b>	<b>117,215</b>
<b>Total assets</b>		<b>201,678</b>	<b>328,882</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	22	(87,835)	(74,927)
Derivative financial instruments	30	(238)	(2,309)
Trade and other payables	23	(34,483)	(49,249)
Income tax payable		(2,218)	(2,416)
Provisions	24	(3,825)	(6,492)
<b>Total current liabilities</b>		<b>(128,599)</b>	<b>(135,393)</b>
<b>Non-current liabilities</b>			
Borrowings	22	(9,331)	(46,759)
Derivative financial instruments	30	(107)	-
Trade and other payables	23	(2,075)	(7,509)
Provisions	24	(1,097)	(1,365)
<b>Total non-current liabilities</b>		<b>(12,610)</b>	<b>(55,633)</b>
<b>Total liabilities</b>		<b>(141,209)</b>	<b>(191,026)</b>
<b>Net assets</b>		<b>60,469</b>	<b>137,856</b>
<b>Equity</b>			
Ordinary share capital	25	223	110
Share premium	25	152,056	78,422
Other reserves		(13)	(739)
(Accumulated losses) retained earnings		(91,797)	60,063
<b>Total equity</b>		<b>60,469</b>	<b>137,856</b>

The financial statements on pages 19 to 54 were approved by the Board and authorised for issue on 28 September 2017 and are signed on its behalf by:



**Richard Smith**  
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

	Note	2017 €'000	2016 €'000
<b>Cash used in operations</b>	27	(27,660)	(13,861)
Income taxes paid		(2,514)	(571)
<b>Net cash used in operating activities</b>		(29,174)	(14,432)
<b>Cash flow from Investing activities</b>			
Interest received		66	62
Purchase of property, plant and equipment		(1,482)	(11,480)
Capitalised development costs		(6,518)	(16,367)
Purchase of subsidiary undertakings, net of cash acquired		(1,782)	(121,989)
Purchase of other intangible assets		(673)	(508)
<b>Net cash used in Investing activities</b>		(10,389)	(150,282)
<b>Cash flow from financing activities</b>			
New borrowings		25,611	118,472
Repayment of borrowings		(51,454)	(15,000)
Interest paid		(5,222)	(3,610)
Arrangement fee		(1,191)	(1,620)
Dividends paid to shareholders		–	(6,384)
Issue of shares, net of fees of €4,349,000 (2016: €5,173,000)		73,747	77,454
Purchase of own shares for Treasury		–	(5,463)
Issue of share capital from Treasury		1	703
<b>Net cash generated from financing activities</b>		41,492	164,552
<b>Net increase (decrease) in cash and cash equivalents</b>	28	1,929	(162)
Cash and cash equivalents at the beginning of the period		2,254	2,401
Foreign exchange		(3)	15
<b>Cash and cash equivalents at the end of the period</b>	21	4,180	2,254

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to the Group Financial Statements

For the period ended 31 March 2017

## 1. Incorporation

Sepura plc ("the Company") is a public limited company limited by shares incorporated and domiciled in England and Wales with registered number 04353801. The Company's registered office is 9000 Cambridge Research Park, Beach Drive, Waterbeach, Cambridge, CB25 9TL. Details of the Company's subsidiary undertakings are set out in Note 5 to the Company's financial statements. The Company and its subsidiary undertakings are collectively referred to below as "the Group".

## 2. The business of the Group

The principal activity of the Group is the design, development and distribution of secure digital radio products and systems.

## 3. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee ("IFRIC")) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements of the parent company, which have been prepared in accordance with Financial Reporting Standard 101 ("FRS 101") 'Reduced Disclosure Framework', are presented separately following these consolidated financial statements.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost basis, except for certain financial instruments that have been measured at fair value. The going concern basis is considered appropriate given the forecast improvement in the Group's trading performance and confirmation from the Group's ultimate parent company that it will provide sufficient financial support to ensure that the Group can meet its obligations as they fall due.

The Company has prepared these consolidated financial statements for the 52 week period from 2 April 2016 to 31 March 2017, being the nearest Friday to the end of the period. The comparative period shown is the 53 week period from 28 March 2015 to 1 April 2016.

These consolidated financial statements include the results of all of the Company's subsidiary undertakings, which are listed in Note 5 to the Company's financial statements. One of the Company's subsidiaries, Fyde Micro Limited, has taken advantage of the exemption from an audit for the period ended 31 March 2017 available under s479A of the Companies Act 2006 as the Company has given a statutory guarantee of all of the outstanding liabilities of Fyde Micro Limited as at 31 March 2017.

## 4. Summary of significant accounting policies

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

### *New standards, interpretations and amendments to published standards effective in the financial statements*

For the purposes of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 2 April 2016.

The following new standards and amendments to published standards have been adopted during the current period:

- › Annual Improvements 2012-2014 cycle
- › Amendment to IAS 16 "Property, plant and equipment" and IAS 38, "Intangible assets", on depreciation and amortisation
- › Amendments to IAS 27 "Separate financial statements" on equity accounting
- › Amendments to IFRS 10 "Consolidated financial statements" and IAS 28, "Investments in associates and joint ventures" on applying the consolidation exemption
- › Amendments to IAS 1 "Presentation of financial statements" disclosure initiative
- › Amendments to IFRS 10 and IAS 28 on investment entities applying the consolidation exemption
- › Amendment to IAS 1 "Presentation of Financial Statements" on the disclosure initiative
- › Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" on depreciation and amortization
- › Amendments to IAS 27 "Separate Financial Statements" on the equity method
- › Amendments to IFRS 11 "Joint Arrangements" on acquisition of an interest in a joint operation

None of these have had an impact on the reported results of the Group.



# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 4. Summary of significant accounting policies (continued)

*Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2017 or later periods, and which the Group has not adopted early:

- › IFRS 17 "Insurance contracts"
- › Amendments to IFRS 4 "Insurance contracts" regarding implementation of IFRS 9 "Financial instruments" (subject to EU endorsement)
- › Amendment to IFRS 9 "Financial instruments" on general hedge accounting
- › Annual Improvements 2014-2016 cycle (subject to EU endorsement)
- › Amendments to IAS 12 "Income taxes" on recognition of deferred tax assets for unrealised losses
- › Amendments to IAS 7 "Statement of cash flows"
- › Amendments to IFRS 15 "Revenue from contracts with customers" - Clarifications
- › Amendments to IFRS 2 "Share based payments" - Classification and measurement (subject to EU endorsement)

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments, IFRS 15 may have an impact on revenue recognition and related disclosures, and IFRS 16 will result in additional leased assets and liabilities being recognised in the balance sheet. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9, IFRS 15 and IFRS 16 until the detailed review currently being performed has been completed.

### *Basis of consolidation*

The Group financial statements incorporate the financial statements of the Company and its subsidiary undertakings. Subsidiary undertakings are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiary undertakings have been changed where necessary to ensure consistency with the policies adopted by the Group.

### *Business combinations*

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- › deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively; and
- › assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 4. Summary of significant accounting policies (continued)

### *Business combinations (continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

### *Goodwill*

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### *Revenue*

Revenue, which relates to both the shipment of products and supplying solutions as part of long-term contracts, is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### **1. Sale of products**

Revenue from the sale of products, such as the Group's terminals, accessories and standard software products, is recognised when the significant risks and rewards of ownership of the products have passed to the buyer and revenue can be reliably measured. Depending on the Incoterms applicable, the Group typically recognises such revenue from the sale of products on despatch, on receipt of products by the customer, or upon formal acknowledgement from the customer that title has passed but they wish the products to be stored at the Group's premises, in which case revenue is only recognised when the goods are on hand, separately identified and available for collection, usual payment terms apply, and it is probable that delivery will take place.

In a multiple element arrangement some of the elements, either hardware or software, may remain undelivered or incomplete. Revenue may be recognised on the fair value of the elements delivered providing the following conditions are fulfilled:

- › The element of the product delivered has value to the customer on a stand-alone basis and is thus a separately identifiable component within the arrangement;
- › The fair value can be reliably attributed to the undelivered element (in the event of bundling where undelivered components may not have a separate invoiced sales price the fair value of the revenue deferred is calculated by comparing the underlying product list price of each element of the bundle compared to the overall bundle price); and
- › Delivery of the undelivered element is probable and under the control of the Group i.e. the technical risk attached to the delivery of the component is acceptable.

If any of these conditions are not met then all revenue under the arrangement is deferred until either the contract is complete or uncertainty over any of these conditions is removed.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 4. Summary of significant accounting policies (continued)

### *Revenue (continued)*

#### ii. Long-term contracts

The supply of solutions by the Group, such as network infrastructure or command and control software applications, where the implementation takes place over a period of months or years, are accounted for as long-term contracts. Revenue and cost of sales from long-term contracts are recognised on the percentage of completion basis based on costs incurred to date when the outcome of the contract can be estimated reliably. The criteria for this are that total contract revenue and the costs to complete the contract can be estimated reliably, it is probable that the economic benefits associated with the contract will flow to the Group and that the stage of contract completion can be measured. When the Group is not able to meet those conditions, the policy is to recognise revenue equal to costs incurred to date, to the extent that such costs are expected to be recovered. Expected losses are recognised in full at the point at which they are anticipated. If the amount of the revenue recognised exceeds the amounts invoiced to customers, the excess amount is recorded in accrued income within trade and other receivables. If the amounts invoiced exceed the revenue recognised, the excess amount is recorded as deferred revenue.

#### iii. Warranties

As noted above, the Group assesses whether any of its contracts contain elements which operate independently of other contractual elements and which should, therefore, be 'unbundled' and accounted for separately. The Group offers as standard to all customers a product warranty package, which is typically for a period of three to five years depending on the product and territory concerned. Generally, product warranty packages which are offered as standard with all products are not separately priced, are offered for periods in line with the Group's standard terms of supply at the time of sale and are not considered to be an element capable of 'unbundling'. In such cases, provision is made at the time of sale for the estimated cost of providing the warranty cover based on historical information on the cost and frequency of repairs required to the Group's products. The Group also has back-to-back warranties of between twelve and fifteen months with the majority of its sub-contract manufacturers to limit risk on product warranties. Amounts due from manufacturers under back-to-back warranties are not recognised until the manufacturer has confirmed a reimbursement will be made.

In certain cases "enhanced" warranty packages, of a longer than standard period, are sold to customers as separate products. In such cases the fair value of the revenue associated with the warranty cover is amortised over the underlying period of the warranty cover. The fair value of the revenue is determined by the Directors based on market information, including the sales price when enhanced warranties are sold on a stand-alone basis.

### *Pensions*

The Group provides access to a Stakeholder Pension Scheme, a defined contribution plan into which employees may elect to contribute via salary deduction. The Group makes contributions to the scheme in proportion to the amount contributed by the employees. Costs are recognised in the consolidated income statement in the period to which they relate.

### *Employee share schemes*

The Group issues equity-settled share-based payments to its eligible employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the consolidated income statement on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. The corresponding entry is recorded in retained earnings. Fair value is measured using the trinomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

### *Financial income*

Financial income comprises interest receivable on cash balances and deposits and is recognised using the effective interest rate method. Financial income also includes the effect of unwinding of discounted trade receivables.

### *Financial expense*

Financial expense comprises interest payable on credit facilities and is calculated using the effective interest rate method in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

### *Income tax*

Income tax on the result for the period comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, in the countries in which the Group operates, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 4. Summary of significant accounting policies (continued)

### *Dividends*

Dividends declared on the Company's equity share capital are recognised as a liability when an irrevocable obligation to pay the dividends is established. In the case of interim dividends this arises when the dividend is paid, while for final dividends this is the date at which the dividends are approved at a shareholders' general meeting.

### *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items including, where relevant, the cost of subcontractors, direct labour and a proportion of attributable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment. Depreciation for certain manufacturing plant and machinery is calculated by reference to the number of units produced, and for all other assets by equal annual instalments over their estimated useful economic lives as follows:

› Buildings	10 – 33 years
› Plant and machinery	3 – 7 years
› IT equipment	3 – 5 years

No depreciation is charged on assets in the course of construction as their useful economic life has yet to commence. On completion, the assets are transferred to the appropriate class of property, plant and equipment and depreciation is charged at the above rates.

### *Intangible assets*

The Group undertakes research and development activities with a view to developing new products and product functionality. Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the consolidated income statement when incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets only if all of the following conditions have been demonstrated:

- › It is technically feasible that the project can be completed and will result in a product that is available for use or sale;
- › It is intended that the project will be completed and the asset will be used or sold;
- › The resultant asset can be used or sold;
- › The resultant asset will generate probable future economic benefits;
- › There are sufficient technical, financial and other resources to complete the development and use or sell the asset; and
- › The expenditure attributable to the project can be measured reliably.

Development expenditures that do not meet these criteria are recognised as an expense in the consolidated income statement as they are incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The expenditure capitalised includes cost of materials, subcontractors, direct labour and a proportion of attributable overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost of the development expenditure by equal annual instalments over the products' estimated useful life, which is three years for developed devices and seven years for developed platforms, commencing from the time the asset is available for use. The amortisation of capitalised development expenditure commences when the development phase is complete and the product is available for sale, and is included in research and development costs in the consolidated income statement.

### *Software and similar licences*

Externally purchased software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The Group also purchases licences to exploit third-party intellectual property rights. Licences are recorded at the historical cost to acquire the licence less accumulated amortisation and impairment losses, and are amortised on a straight-line basis over the life of the licence or, where the licence is indefinite, their estimated useful life which is generally three years. The amortisation of software and similar licences is included in the consolidated income statement within cost of sales or research and development costs as appropriate.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 4. Summary of significant accounting policies (continued)

### *Acquired intangible assets*

At the date of acquisition of a subsidiary, intangible assets that are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value at the acquisition date (which is regarded as their cost), which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on a straight-line basis over their expected useful lives, which range from two to seventeen years. They are subsequently measured at cost less accumulated amortisation and impairment. At each balance sheet date, these assets are assessed for indicators of impairment and, in the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately through the consolidated income statement.

### *Impairment of tangible and intangible assets excluding goodwill*

The carrying value of non-current assets is reviewed whenever events or changes in circumstances indicate that the carrying value may not be recoverable to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Intangible assets initially recognised during the current annual period which are not yet available for use are also tested for impairment by reference to the asset's recoverable amount at the balance sheet date.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of property, plant and equipment and capitalised software and other licences is the greater of their fair value less costs to sell and value in use. The recoverable amount of capitalised development costs is its value in use. In assessing value in use, the estimated future cash flows over the remaining useful economic life of the asset in question are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### *Inventories*

Inventories including work in progress are stated at the lower of cost and net realisable value, being estimated selling price in the ordinary course of business less applicable variable selling costs. Cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective inventories.

### *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### *Leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

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

### *Government grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. The benefit of UK research and development is recognised under the UK's Research and Development Expenditure ("RDEC") scheme and is of the nature of a government grant. Government grants which relate to research and development expenditure which has been capitalised during a period is netted off against the amount capitalised, and then released over the amortisation period of the related intangible asset.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

### *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and the amount can be estimated reliably. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

### *Share capital*

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.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 4. Summary of significant accounting policies (continued)

### *Non-recurring items*

Items of income and expense that are considered material, either by their size and/or nature, are classified as exceptional/non-recurring. Such items are shown separately on the face of the consolidated income statement. The categorisation of exceptional items depends on the nature of the items arising.

### *Financial instruments*

#### i. Treasury policies and management

The Group's treasury policies are designed to ensure that adequate financial resources are available for the development of the Group's businesses.

#### ii. Trade receivables

Trade receivables are recognised initially at fair value and subsequently held at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are assessed individually for impairment and movements in the provision for doubtful debts are recorded in the consolidated income statement.

Where the Group enters in to a factoring agreement the trade receivables are derecognised when the agreement transfers the trade receivables and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred trade receivable, the Group continues to recognise the trade receivable and also recognises a collateralised borrowing for the proceeds received.

#### iii. Trade payables

Trade payables are recognised initially at fair value and subsequently held at amortised cost using the effective interest rate method. Trade payables are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

#### iv. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

When the Group exchanges with an existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

#### v. Derivative financial instruments

Derivatives are initially recognised at fair value on the date the derivative contract is entered into, and are subsequently remeasured at their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment ("fair value hedges");
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction ("cash flow hedge"); or
- (c) hedges of a net investment in a foreign operation ("net investment hedge").

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 30.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 4. Summary of significant accounting policies (continued)

### *Financial instruments (continued)*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within financial income or financial expense. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within financial income or financial expense. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the consolidated income statement as they arise.

### *Foreign currencies*

#### *i. Functional and presentation currency*

The presentation currency of the Group and the Company, and the functional currency of the Company, is the Euro (€). The functional currency of each Group entity is that of the primary economic environment in which it operates.

#### *ii. Transactions and balances*

Transactions denominated in foreign currencies have been translated into the functional currency at the actual rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been retranslated at rates ruling at the balance sheet date. All exchange gains and losses are taken to the consolidated income statement in the period in which they arise.

#### *iii. Group companies*

The results and financial position of the Group's overseas subsidiary undertakings are translated, where appropriate, into Euros as follows:

- › Assets and liabilities at each balance sheet date presented are translated at the closing rate at the date of that balance sheet;
- › Income and expenses are translated at average exchange rates; and
- › All resulting exchange differences are recognised as a separate component of equity.

## 5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### *Critical judgements in applying the Group's accounting policies*

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

### *Assessing whether development costs meet the criteria for capitalisation*

The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgement of the point at which technical feasibility is demonstrable.

The carrying amount of development costs on projects which are not yet available for sale or use was:

	2017	2016
	€'000	€'000
Development costs not available for sale or use	8,209	10,290

### *Key sources of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

## Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

### 5. Critical accounting judgements and key sources of estimation uncertainty (continued)

#### *Estimating provisions for trade receivables*

The Group has some concentration of credit risk due to the influence of large contracts on its business, albeit these contracts are directly, or indirectly (via the Group's distribution partners) predominantly with Government agencies both in the UK and internationally. To offset this risk the Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The Group does not hold any security or other collateral in respect of its trade receivables and so was exposed to credit risk in respect of the net trade receivables balance of €39.2 million (2016: €51.8 million) including overdue receivable balances relating to projects in emerging markets. An impairment provision is maintained in respect of amounts owed by specific customers where recoverability of the debt is considered sufficiently uncertain.

#### *Estimating the costs required to complete long-term contracts*

Revenue recognised under long-term contracts is determined by reference to the stage of completion of the relevant contract. Assessing the stage of completion requires an estimation of the future costs that will be incurred to complete the contract. If management's assessment of these future costs were amended by 10% then the impact on revenue and gross margin would be €1.3 million (2016: €6.5 million).

#### *Assessing the useful economic lives of capitalised development costs*

Management have estimated the useful economic lives of capitalised development costs as three years for developed devices and seven years for developed platforms based on historical knowledge of the life cycle of the Group's products and technology.

If the estimated useful economic life was reduced by one year, net assets would be reduced by €2.5 million at 31 March 2017 and €3.8 million at 1 April 2016, with a corresponding increase in the Group's reported profit of €3.2 million and €2.8 million respectively.

#### *Impairment of goodwill, capitalised development costs and acquired intangibles*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit ("CGU") to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows of the CGU, and a suitable discount rate, in order to calculate the present value. Similar calculations are required in respect of capitalised development costs and other acquired intangibles. Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation (see Note 15).

#### *Contingent consideration*

Contingent consideration is payable to the previous owners of Portallfy OY. Management have considered that, based on their best estimate, up to €0.9 million may be payable but no amount has yet been accepted by the previous owners.

#### *Tax estimates*

The calculation of the Group's total tax charge for the period necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined at the reporting date. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions. Furthermore, the recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits, based on the latest available profit forecasts, will be available in the future against which the reversal of temporary differences can be deducted.



## Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

### 6. Revenue

#### *Geographical information*

The Group's revenue was derived from external customers based in the following geographical locations:

	2017 €000s	2016 €000s
Germany	15,719	36,219
United States of America	10,974	3,310
Mexico	9,430	3,415
United Kingdom and Ireland	7,732	10,450
Brazil	6,234	27,633
Saudi Arabia	934	29,811
Rest of World	59,145	78,885
	<b>110,168</b>	<b>189,723</b>

#### *Revenues from major products and services*

The Group's revenues from its major products and services were as follows:

	2017 €000s	2016 €000s
Sales of products	65,787	124,745
Provision of infrastructure solutions and ongoing support services	44,381	64,978
	<b>110,168</b>	<b>189,723</b>

## Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

### 7. Adjusted performance measures

The Group presents adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and operating profit (loss) as key performance measures in addition to the operating profit reported under IFRS. The Group considers that the exclusion of certain non-recurring or non-cash items provides an alternative measure of the underlying trading performance of the Group. They may not be comparable to measures with a similar description used by other entities.

EBITDA has been calculated as follows:

	2017 €'000	2016 €'000
Operating loss	(142,337)	(15,839)
Depreciation (see Note 16)	3,389	3,368
Amortisation (see Note 15)	17,734	13,515
EBITDA	(121,204)	1,044
Non-recurring items (see below)	106,350	26,370
Provision against receivables in emerging markets (see Note 19)	4,230	2,354
Reversal of capitalised development costs (see Note 15)	(6,518)	(16,387)
Reversal of the IFRS 2 share-option charge (see Note 9)	2,733	2,840
Reversal of the NI payable on the shares subject to the IFRS 2 share-option charge	78	296
Adjusted EBITDA	(14,331)	16,537

Non-recurring items adjusted in calculating adjusted EBITDA comprise the following which have been charged (credited) in arriving at the operating loss for the period:

	2017				2016
	Cost of sales €'000	Sales & marketing €'000	Research & development €'000	Administrative expenses €'000	Total €'000
Impairment of:					
- Capitalised development costs	-	-	7,531	-	7,531
- Software	-	-	-	2,130	2,130
- Acquired intangibles	-	-	-	1,891	1,891
- Goodwill	-	-	-	76,171	76,171
- Property, plant and equipment	-	-	-	4,228	4,228
- Inventories	761	-	-	-	761
- Greek public safety contract receivable	-	-	-	-	-
Total asset impairments	761	-	7,531	84,420	92,712
Costs associated with the Capital Raising and revised banking facilities	-	-	-	9,926	9,926
Other restructuring costs	-	608	1,851	1,659	4,118
Net movement in contingent consideration	-	-	-	(406)	(406)
Acquisition costs relating to Teltronic	-	-	-	-	-
	761	608	9,382	95,599	106,350

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 7. Adjusted performance measures (continued)

Other adjusted performance measures have been calculated as follows:

For the period ended 31 March 2017

	Income Statement €'000	Non- recurring items €'000	Adjustments							Adjusted Income statement €'000
			(i) €'000	(ii) €'000	(iii) €'000	(iv) €'000	(v) €'000	(vi) €'000	(vii) €'000	
Revenue	110,168	–	–	–	–	–	–	–	–	110,168
Cost of sales	(66,333)	761	–	–	–	–	–	–	–	(65,572)
Gross profit	43,835	761	–	–	–	–	–	–	–	44,596
Selling, marketing and distribution costs	(26,951)	608	–	–	–	–	–	–	–	(26,343)
Research and development costs	(31,550)	9,382	(6,518)	10,452	–	–	–	–	–	(18,234)
Administrative expenses	(127,671)	95,599	–	–	6,462	2,733	78	4,230	–	(18,569)
Operating costs	(186,172)	105,589	(6,518)	10,452	6,462	2,733	78	4,230	–	(63,146)
Operating loss	(142,337)	106,350	(6,518)	10,452	6,462	2,733	78	4,230	–	(18,550)
Financial income	676	–	–	–	–	–	–	–	–	676
Financial expense	(7,736)	2,387	–	–	–	–	–	–	127	(5,222)
Net financial expense	(7,060)	2,387	–	–	–	–	–	–	127	(4,546)
Loss before tax	(149,397)	108,737	(6,518)	10,452	6,462	2,733	78	4,230	127	(23,098)
Income tax credit	(3,793)	(4,199)	1,400	(2,215)	(1,611)	(547)	(16)	(974)	(25)	(11,980)
Loss for the period attributable to owners of the parent	(153,190)	104,538	(5,118)	8,237	4,851	2,186	62	3,256	102	(35,076)

For the period ended 1 April 2016

	Income Statement €'000	Non- recurring items €'000	Adjustments							Adjusted Income statement €'000
			(i) €'000	(ii) €'000	(iii) €'000	(iv) €'000	(v) €'000	(vi) €'000	(vii) €'000	
Revenue	189,723	–	–	–	–	–	–	–	–	189,723
Cost of sales	(118,936)	6,051	–	–	–	–	–	–	–	(112,885)
Gross profit	70,787	6,051	–	–	–	–	–	–	–	76,838
Selling, marketing and distribution costs	(31,403)	3,083	–	–	–	–	–	2,354	–	(25,986)
Research and development costs	(24,215)	10,520	(16,367)	8,286	–	–	–	–	–	(21,776)
Administrative expenses	(31,008)	6,716	–	–	4,437	2,840	296	–	–	(16,719)
Operating costs	(86,626)	20,319	(16,367)	8,286	4,437	2,840	296	2,354	–	(64,461)
Operating (loss) profit	(15,839)	26,370	(16,367)	8,286	4,437	2,840	296	2,354	–	12,377
Financial income	948	–	–	–	–	–	–	–	–	948
Financial expense	(4,129)	218	–	–	–	–	–	–	301	(3,610)
Net financial expense	(3,181)	218	–	–	–	–	–	–	301	(2,662)
(Loss) profit before tax	(19,020)	26,588	(16,367)	8,286	4,437	2,840	296	2,354	301	9,715
Income tax credit	8,168	(4,650)	3,273	(1,657)	(887)	(568)	(59)	(471)	(61)	3,088
(Loss) profit for the period attributable to owners of the parent	(10,852)	21,938	(13,094)	6,629	3,550	2,272	237	1,883	240	12,803

Adjustment items comprise certain non-operational or non-cash items as follows:

- (i) Reversal of capitalised development costs (see Note 15) – capitalisation of development costs is required, but as this is a cash cost to the business reversing the amount capitalised in the year, and also the amortisation associated with amounts capitalised, is considered to provide a better reflection of the underlying performance of the Group.
- (ii) Reversal of associated amortisation (see Note 15) – as above.
- (iii) Reversal of amortisation of acquired intangibles (see Note 15) – intangible assets acquired through business combinations are capitalised on the balance sheet and amortised over their useful economic life. The amortisation is a non-cash and non-operational cost to the business, is considered to provide a better reflection of the underlying performance of the Group.
- (iv) Reversal of IFRS 2 share-option charge (see Note 9) – the charge recognised on issuing share options to employees is a non-cash cost to the Group, and therefore reversing the charge, and related NI payable, is considered to better reflect the performance of the Group.
- (v) Reversal of the NI payable on the shares subject to the IFRS 2 share-option charge – as above.
- (vi) Provision against receivables in emerging markets (see Note 19) – provisions against the recoverability of receivables in certain emerging markets were made in the period as a result of deterioration in the economic position of those markets. Excluding these is considered to provide a better reflection of the underlying performance of the Group.
- (vii) Reversal of amortisation of debt issue costs (see Note 12) – the amortisation of debt issue costs is a non-cash item, and therefore reversing the cost is considered to better reflect the performance of the Group.

## Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

### 8. (Loss) profit before income tax

	2017 €'000	2016 €'000
In addition to the non-recurring items set out in Note 7 above, the loss for the period is stated after charging (crediting):		
Cost of inventories recognised as an expense (included in cost of sales)	48,081	97,752
Depreciation on property, plant and equipment:		
– Owned assets	3,399	3,368
– Amounts included in capitalised development costs	(139)	(200)
Amortisation of intangible assets		
– Development costs	10,452	8,286
– Software and similar licences	820	792
– Acquired intangibles	6,462	4,437
Research and non-capitalised development costs (excluding amortisation)	11,716	5,409
Operating lease rentals:		
– Land and buildings	1,776	2,015
– Plant and machinery	527	50
Trade receivables impairment (included in sales, marketing and distribution costs and excluding non-recurring items)	2,424	(47)
Foreign exchange losses	891	150
Government grants – RDEC	(567)	(2,234)
	2017 €'000	2016 €'000
<b>Auditors' remuneration:</b>		
– Fees payable to the Company's Auditors for the audit of the Company and consolidated financial statements	287	225
– Fees payable to the Company's Auditors for other services:		
– Audit related assurance services (Interim review)	67	41
– Tax compliance services	61	59
– Tax advisory services	31	13
– Corporate finance services	1,045	1,021
– All other non-audit services	–	8
	1,491	1,367

### 9. Employee numbers and costs

The average monthly number of persons employed by the Group (including executive Directors) during the period, analysed by category, was as follows:

	2017 Number	2016 Number
Research and development	269	330
Sales, marketing and distribution	145	137
Production support	216	278
General and administration	72	86
	702	831

The aggregate costs of these employees were as follows:

	2017 €'000	2016 €'000
Wages and salaries	39,109	40,503
Social security costs	6,508	6,781
Other pension costs	1,474	1,708
Expense relating to share based payments	2,733	2,840
	49,824	51,832

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 10. Key management compensation and remuneration of Directors

Total Directors' remuneration, excluding gains from the exercise of share options, comprised:

	2017		2016	
	£'000	€'000	£'000	€'000
Directors' emoluments	1,180	1,407	906	1,237
Company contributions to money purchase pension plans	63	75	64	87
	1,243	1,482	970	1,324

Information on the remuneration of individual Directors is given in those sections of the Directors' Remuneration Report described as having been audited, and those elements required by the Companies Act 2006 and the Financial Conduct Authority form part of these financial statements. None of the Directors exercised share options during the period (2016: One exercised share options in the prior period, giving rise to a taxable gain of £665,000); the total expense in the income statement relating to Directors' share based payments was €1,313,000 (2016: €516,000).

The compensation of the Directors and the six (2016: nine) other "key management personnel" (as defined within IAS 24) was as follows:

	2017	2016
	€'000	€'000
Salaries and other short-term employee benefits	2,646	2,921
Company contributions to money purchase schemes	154	217
Termination benefits	–	194
Expense relating to share based payments	2,556	742
	5,356	4,074

## 11. Financial income

	2017	2016
	€'000	€'000
Interest receivable and similar income on short-term bank deposits	66	62
Unwind of discounting of trade receivables	610	886
	676	948

## 12. Financial expense

	2017	2016
	€'000	€'000
<i>Financial expenses before non-recurring items</i>		
Interest payable on borrowings and credit facilities	5,222	3,610
Amortisation of loan arrangement fees	127	301
	5,349	3,911
<i>Non-recurring financial expenses</i>		
De-recognition of unamortised loan arrangement fee related to previous facilities	1,196	218
Arrangement fee in relation to the revision of the facility during the period	1,191	–
	2,387	218
Total financial expense	7,736	4,129

## Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

### 13. Income tax

	2017 €'000	2016 €'000
<b>Current tax:</b>		
Income tax for the period	2,299	223
Adjustment in respect of prior periods	17	-
	2,316	223
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	1,477	(8,935)
Adjustment in respect of prior periods	-	1,639
Impact of change in UK tax rate	-	(1,095)
	1,477	(8,391)
<b>Total tax in consolidated income statement</b>	<b>3,793</b>	<b>(8,168)</b>

#### Factors affecting the tax expense (credit) for the period

The tax expense (credit) for the period is different from the standard rate of corporation tax in the UK, which was 20% (2016: 20%). The differences are explained below:

	2017 €'000	2016 €'000
<b>Tax reconciliation</b>		
Loss before income tax	(149,397)	(19,020)
At standard rate of corporation tax in the UK	(29,878)	(3,804)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	20,064	991
Restriction on recognition of deferred tax asset related to carried forward losses	13,975	-
Research and development enhanced expenditure	(187)	(1,475)
Employee share options	1	(625)
Timing differences	7	(662)
Adjustments in respect of prior periods	17	1,639
Overseas tax credits	-	(3,588)
Remeasurement of deferred tax due to change in tax rate	-	(1,095)
Effects of different tax rates of subsidiaries operating in other jurisdictions	(206)	305
Other	-	46
<b>Total tax expense (credit) (see above)</b>	<b>3,793</b>	<b>(8,168)</b>
<b>Effective tax rate</b>	<b>-3%</b>	<b>43%</b>

The Finance Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 to 31 March 2020 and 18% effective from 1 April 2020, was substantively enacted on 18 November 2015.

A further reduction in the main rate of corporation tax from 19% to 17% from 1 April 2020 was announced in the March 2016 Budget, and was substantively enacted as part of Finance Bill 2016 on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In the light of the reduction in forecast profitability of the Group the full value of the potential deferred tax asset relating to the Group's trading losses has not been recognised.

### 14. Dividends

No dividend is proposed in respect of the financial period ended 31 March 2017.

During the current and prior periods the Company paid the following dividends:

		2017 €'000	2016 €'000
FY16	Interim dividend of 0.79p per Ordinary share	-	2,071
FY15	Final dividend of 1.71p per Ordinary share	-	4,313
		-	6,384

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 15. Intangible assets

	Capitalisation of development costs €'000	Software and similar licences €'000	Acquired software, customer relationships and brand €'000	Goodwill €'000	Total €'000
<b>Cost</b>					
At 28 March 2015	119,720	5,435	8,405	19,725	153,285
Additions	16,367	508	–	–	16,875
Acquisitions	8,162	2,388	49,976	56,448	116,972
Capitalisation of RDEC relating to prior periods <sup>1</sup>	(2,160)	–	–	–	(2,160)
Transfer	–	724	–	–	724
At 1 April 2016	142,089	9,055	58,381	76,171	285,696
Additions	6,518	673	–	–	7,191
Disposals	–	(3,336)	–	–	(3,336)
<b>At 31 March 2017</b>	<b>148,607</b>	<b>6,392</b>	<b>58,381</b>	<b>76,171</b>	<b>289,551</b>
<b>Amortisation and impairment</b>					
At 28 March 2015	79,575	3,487	3,671	–	86,733
Charge for the period <sup>1</sup>	8,286	792	4,437	–	13,515
Impairment <sup>2</sup>	5,575	13	2,422	–	8,010
Transfer	144	(144)	–	–	–
At 1 April 2016	93,580	4,148	10,530	–	108,258
Charge for the period	10,452	820	6,462	–	17,734
Impairment	7,531	2,130	1,891	76,171	87,723
Disposals	–	(3,336)	–	–	(3,336)
<b>At 31 March 2017</b>	<b>111,563</b>	<b>3,762</b>	<b>18,883</b>	<b>76,171</b>	<b>210,379</b>
<b>Net book value</b>					
At 31 March 2017	37,044	2,630	39,498	–	79,172
At 1 April 2016	48,509	4,907	47,851	76,171	177,438
At 27 March 2015 <sup>3</sup>	40,145	1,948	4,734	19,725	66,552

1 Research and Development Expenditure Credits ("RDEC") were recognised for the periods ending 28 March 2014, 27 March 2015 and 1 April 2016. A credit of €2,160,000 is recorded in 2016 relating to previous periods, with €1,144,000 of this released in 2016 and netted against the amortisation charge.

2 Impairments in the period relate to the write off of intangible assets relating to DMR, comprising acquired intangibles of €1,520,000 and capitalised R&D of €4,065,000. The remaining impairment of €2,673,000 relates to intangible assets acquired with Teltronic which have a fair value, and therefore need to be recognised on acquisition, but which do not have a value to the Group, and therefore were immediately impaired.

3 Impairments in the current period have been recorded following the impairment review set out below.

The only individually material intangible asset comprises the capitalised development costs for the Next Generation platform, which have a carrying value of €23.5 million at 31 March 2017 (2016: €29.1 million) and remaining amortisation period of 70 months (2016: 82 months).

The amortisation charge for each period has been included within the following captions of the consolidated income statement:

	2017 €'000	2016 €'000
Research and development costs	10,452	8,384
Administrative expenses	7,282	5,131
	<b>17,734</b>	<b>13,515</b>

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 15. Intangible assets (continued)

### Goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may have been impaired. Goodwill relates to the acquisition of Teltronic SAU, Fyde Micro Limited, Portalfy OY and 3T Communications AG.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGU's") or group of units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2017 €'000	2016 €'000
Devices	19,725	19,725
Systems	56,446	56,446
	76,171	76,171

The reduction in forecast profitability of the Group has reduced the recoverable amounts of the total intangible assets associated with the above CGUs by €87,723,000, resulting in a corresponding impairment of the Group's intangible assets during the period.

The recoverable amounts have been determined from value in use calculations, in accordance with IAS38 "Impairment of Assets", the key assumptions for which are set out below:

Assumption	How determined
Revenues	Management have used detailed forecasts for the next two years, which is the forecast period for detailed cashflow forecasts. A two year period is considered an appropriate timeframe for the detailed forecasts as management has a good view of future orders and other relevant market dynamics. The detailed forecasts are then extrapolated for periods beyond the forecast period by applying a long term growth rate, as discussed below.
Gross margin	Gross margin has been calculated based on the specific customer and product mix included in the revenue forecasts.
Operating costs	Operating costs are based on detailed forecasts reflecting expected future head-count, investment in R&D and routes to market and contracted hedge rates for Sterling-denominated costs.
Capital expenditure	Forecast capital expenditure is based on specific planned investment together with historical levels of capital expenditure.
Discount rate	The pre-tax discount rate of 10.8% (2016: 8.3%) applied to the cash flows reflects the weighted average cost of capital of the Group using the industry standard formula.
Long term growth rate	A long term growth rate of 1.9% has been used in calculating the value of cashflows beyond the forecast period. The growth rate used is based on the forecast GDP growth rate in the countries in which the Group operates, and other industry specific growth forecasts.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation. The impact of adjusting the discount rate applied by 0.5% would be €5.6 million; the impact of adjusting the long term growth rate by 0.5% would be €5.4 million.



# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 16. Property, plant and equipment

	Land and buildings €'000	Assets under construction €'000	Plant and machinery €'000	IT equipment €'000	Total €'000
<b>Cost</b>					
At 28 March 2015	–	3,296	17,012	3,046	23,354
Foreign exchange	–	–	125	2	127
Transfers	–	(9,971)	9,247	–	(724)
Additions	–	8,330	2,868	282	11,480
Acquisitions	3,163	–	2,940	–	6,103
Disposals	–	–	(2,054)	(50)	(2,104)
At 1 April 2016	3,163	1,655	30,138	3,280	38,236
Foreign exchange	–	–	(3)	1	(2)
Transfers	–	(1,596)	1,596	–	–
Additions	–	11	925	546	1,482
Disposals	–	–	(5,830)	(1,771)	(7,601)
<b>At 31 March 2017</b>	<b>3,163</b>	<b>70</b>	<b>26,826</b>	<b>2,056</b>	<b>32,115</b>
<b>Accumulated depreciation</b>					
At 28 March 2015	–	–	10,646	2,379	13,025
Foreign exchange	25	–	163	–	188
Charge for the period	51	–	2,984	333	3,368
Impairment	–	–	139	–	139
Disposals	–	–	(1,752)	(48)	(1,800)
At 1 April 2016	76	–	12,180	2,664	14,920
Foreign exchange	–	–	(5)	–	(5)
Charge for the period	60	–	2,882	457	3,399
Impairment	–	–	4,228	–	4,228
Disposals	–	–	(5,618)	(1,765)	(7,383)
<b>At 31 March 2017</b>	<b>136</b>	<b>–</b>	<b>13,667</b>	<b>1,356</b>	<b>15,159</b>
<b>Net book value</b>					
At 31 March 2017	3,027	70	13,159	700	16,956
At 1 April 2016	3,087	1,655	17,958	616	23,316
At 27 March 2015	–	3,296	6,366	667	10,329

There was no capital expenditure at the end of either period which had been contracted for prior to the end of the period but not provided for in the financial statements.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 17. Deferred tax

The Group's deferred tax assets and (liabilities) totalled €21,430,000 (2016: €30,788,000) and €15,315,000 (2016: €19,875,000) respectively and relate to temporary differences in respect of:

	Capitalised development costs €'000	Cash- flow hedges €'000	Acquired intangible assets €'000	Losses €'000	Equity- settled share options €'000	Other temporary differences €'000	Property, plant and equipment €'000	Net €'000
At 28 March 2015	(8,029)	(503)	(947)	9,515	2,790	168	1,300	4,294
Acquired	-	172	(14,915)	12,933	-	-	-	(1,810)
Recognised in income	(108)	-	2,285	4,136	568	(168)	583	7,296
Recognised in equity:								
– Arising on cash flow hedges	-	734	-	-	-	-	-	734
– Arising on equity settled share options	-	-	-	-	(696)	-	-	(696)
Change of rate	403	(20)	1,436	(630)	-	-	(84)	1,095
At 1 April 2016	(7,734)	383	(12,141)	25,954	2,662	-	1,789	10,913
Foreign exchange	-	-	-	(8)	-	-	(1)	(9)
Recognised in income	2,294	-	2,266	(8,032)	546	-	1,449	(1,477)
Recognised in equity:								
– Arising on cash flow hedges	-	(319)	-	-	-	-	-	(319)
– Arising on equity settled share options	-	-	-	-	(2,993)	-	-	(2,993)
At 31 March 2017	(5,440)	64	(9,875)	17,914	215	-	3,237	6,115

Deferred tax liabilities have been offset against deferred tax assets at 31 March 2017 where there is a legally enforceable right to offset current tax assets and current tax liabilities within the same fiscal jurisdiction.

The Group's deferred tax assets have been recognised in accordance with IAS 12 to the extent that, based on historical performance and future budgets, the Directors believe that it is probable that there will be sufficient taxable profits against which the assets will reverse. In the light of the reduction in forecast profitability of the Group €13,975,000 of potential deferred tax assets relating to trading losses have not been recognised.

Deferred tax assets and liabilities may be classified as long-term or current as follows:

	2017 €'000	2016 €'000
Non-current assets	20,678	25,828
Non-current liabilities	(14,427)	(18,359)
	6,251	7,469
Current assets	752	4,960
Current liabilities	(888)	(1,516)
	(136)	3,444

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 18. Inventories

	2017 €'000	2016 €'000
Raw materials	8,279	10,146
Work in progress	4,067	5,225
Finished goods and goods for resale	11,704	11,413
	<b>24,050</b>	<b>26,784</b>

An obsolescence provision is maintained in respect of inventories, the movements on which are set out below:

	2017 €'000	2016 €'000
At the beginning of the period	9,053	584
Foreign exchange	24	-
Charged (released) to cost of sales in the consolidated income statement		
- In relation to the impairment of DMR Inventory included within non-recurring items	761	3,817
- In relation to the impairment of Inventory acquired with Teltronic	-	2,234
- In relation to slow-moving Inventory following reduced forecast demand	3,434	179
Acquired with Teltronic SAU	-	2,291
Utilised in period	(217)	(52)
At the end of the period	<b>13,055</b>	<b>9,053</b>

## 19. Trade and other receivables

	2017 €'000	2016 €'000
Trade receivables	51,833	57,756
Less: provision for impairment of receivables	(12,643)	(5,989)
Trade receivables (net)	39,190	51,767
Other receivables	1,461	6,125
RDEC receivable	1,929	3,375
Prepayments and accrued income	28,825	22,985
	<b>71,205</b>	<b>84,252</b>

### Credit risk in relation to trade receivables

The Group has some concentration of credit risk due to the influence of large contracts on its business, albeit these contracts are directly, or indirectly (via the Group's distribution partners) predominantly with Government agencies both in the UK and internationally. To offset this risk the Group has implemented policies that require appropriate credit checks on potential customers before sales are made. Customer orders are checked against pre-set requirements before acceptance and formal credit control procedures are applied subsequent to invoicing the customer. Letters of credit and payments in advance are also obtained from customers as appropriate.

The Group does not hold any security or other collateral in respect of its trade receivables and so was exposed to credit risk in respect of the net trade receivables balance of €39,190,000 (2016: €51,767,000). Management believe that the credit quality of trade receivables which are within the Group's typical payment terms of between 30 and 90 days is good, with €6,615,000 (2016: €10,157,000) being overdue but not impaired at the period end, of which €2,711,000 was less than 30 days overdue (2016: €1,591,000) and €822,000 (2016: €7,537,000) was more than 90 days overdue.

An impairment provision is maintained in respect of amounts owed by specific customers which were more than 120 days overdue and where recoverability of the debt was considered sufficiently uncertain. While the Board will continue to pursue full settlement of these amounts, the timing and value of any payments is uncertain. During the period the Group provided a further €4,230,000 (2016: €2,354,000) in relation to receivables from contracts in emerging markets, where customers face particular payment challenges, especially from currency movements. In addition, the Group provided €2,424,000 (2016: €47,000) in relation to customers in more traditional markets.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 19. Trade and other receivables (continued)

The movement in the impairment provision during the period and the prior period is shown below:

	2017 €'000	2016 €'000
At the beginning of the period	5,989	2,070
Charged (released) to the consolidated income statement	2,424	(47)
Acquired	-	1,360
Provision against Greek public safety contract included in non-recurring items	-	365
Provision against receivables in emerging markets	4,230	2,354
Utilised in the period	-	(113)
At the end of the period	12,643	5,989

### Foreign exchange risk in relation to trade receivables

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2017 €'000	2016 €'000
Euro	27,670	32,212
Sterling	1,519	1,892
US dollar	1,744	7,607
Brazilian Real	7,197	9,691
Other	1,060	365
Total	39,190	51,767

The Group's overall foreign exchange risk is explained in Note 30 "Financial instruments".

## 20. Restricted cash

The Company received €3.9 million of advance payments from a customer in FY16 that were treated as "restricted cash" in accordance with IAS 7 "Statement of cash flows" as, although the funds were held in a separate amount in the Company's name, they were not available for general use until predetermined periods had lapsed following the delivering of the related goods. All of the periods lapsed during FY17, lifting all such restrictions.

## 21. Cash and cash equivalents

The denomination and interest rate risk profile of the Group's cash and cash equivalents is as follows:

	2017			2016		
	Cash at bank and in hand €'000	Short-term deposits €'000	Total €'000	Cash at bank and in hand €'000	Short-term deposits €'000	Total €'000
Sterling	17	1,040	1,057	14	217	231
US dollar	688	428	1,116	23	38	61
Euro	1,700	-	1,700	1,832	11	1,843
Other currencies	307	-	307	119	-	119
Total	2,712	1,468	4,180	1,988	266	2,254

The credit risk associated with cash and cash equivalents is mitigated by holding funds with counterparties with high credit ratings assigned by international credit rating agencies. Deposit accounts represent amounts placed on short-term deposit on the money markets through accounts held at AA2 to AA3 rated banks (2016: AA2 to AA3 rated).

## 22. Borrowings

Borrowings outstanding at the end of the period

	2017 €'000	2016 €'000
Bank overdrafts	9,420	4,643
Bank borrowings, all of which are denominated in Euros, are repayable as follows:		
Within one year	78,415	70,284
In the second year	9,331	11,392
In the third to fifth year inclusive	-	33,315
In more than five years	-	2,052
	97,166	121,686
Less: amounts due for settlement within 12 months (shown under current liabilities)	(87,835)	(74,927)
Amount due for settlement after 12 months	9,331	46,759

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 22. Borrowings (continued)

### Facilities

On 1 May 2015 the Group entered into a €50 million term loan for a period of five years, together with a €70 million revolving credit facility that is available for five years, as part of the financing for the acquisition of Teltronic. These facilities were revised in June 2016 as part of the Capital Raising, and were subsequently repaid after the balance sheet date, following the completion of the Acquisition as set out in Note 34.

At 31 March 2017 the Group's borrowings comprised €43,300,000 of the term loan and a drawdown of €31,000,000 of the revolving credit facility, both of which bear interest at LIBOR plus up to 4.25%.

Additional borrowings comprise loans acquired with Sepura Systems GmbH, Portalfly OY and Teltronic SAU. Bank borrowings at Sepura Systems GmbH comprise an export loan of €1,500,000 which bears interest at 2.25% and a term loan of which €74,000 is outstanding, is repayable in monthly instalments of €11,000, and bears interest of 3.78%. Bank borrowings at Portalfly OY comprise development funding loans of €348,000, which are repayable in annual instalments through to 2017 and bear interest at the Bank of Finland base rate less 3% (subject to a minimum of 1%), and €225,000 of other loans repayable monthly or quarterly that bear interest at 1%. Bank borrowings at Teltronic SAU comprise loans totalling €11,019,000. €1,877,000 of this is repayable on demand, with the remainder being for specific projects and which bear interest of between 0% and 3.95% and are repayable over periods of up to between 4 and 10 years.

Bank overdrafts of €9,420,000 are secured against the assets of the Group. Other guarantees are disclosed in Note 31, while changes in the Group's principal bank facilities since the end of the year are set out in Note 34.

## 23. Trade and other payables

	2017 €'000	2016 €'000
Trade payables	11,217	24,358
Other taxation and social security	1,127	1,910
Accruals	11,800	19,241
Deferred Income	9,691	3,081
Payments in advance	648	659
	<b>34,483</b>	<b>49,249</b>
<b>Non-current</b>		
Deferred Income	2,075	7,509

Non-current deferred income relates to non-standard warranty package revenues, which are amortised over the underlying period of the warranty cover, and amounts billed in advance on Systems contracts.

At the end of the period the Group had entered into supply agreements under which the Group has minimum contractual purchase commitments of €12.4 million (2016: €11.8 million) during the three month period subsequent to the period end.

### Foreign exchange risk in relation to trade payables

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2017 €'000	2016 €'000
Euro	5,413	13,284
Sterling	3,116	3,806
US dollar	2,434	4,819
Brazilian Reals	207	-
Other currencies	47	2,449
<b>Total</b>	<b>11,217</b>	<b>24,358</b>

The Group's overall foreign exchange risk is explained in Note 30 "Financial instruments".

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 24. Provisions

	2017				2016			
	Warranty provision €'000	Contingent consideration €'000	Other €'000	Total €'000	Warranty provision €'000	Contingent consideration €'000	Other €'000	Total €'000
At the beginning of the period	3,568	3,191	1,098	7,857	896	6,998	–	7,894
Foreign exchange	–	(126)	–	(126)	–	–	–	–
Arising on acquisition of Teltronic SAU	–	–	–	–	2,409	–	1,308	3,715
Subsequent Increase (release) of part of the contingent consideration	–	–	–	–	–	(2,627)	–	(2,627)
Charged (released) to the consolidated income statement	550	(406)	(307)	(163)	263	–	(208)	55
Settled or utilised in period	(864)	(1,782)	–	(2,646)	–	(1,180)	–	(1,180)
At the end of the period	3,254	877	791	4,922	3,568	3,191	1,098	7,857
Less: amounts due for settlement within 12 months (shown under current liabilities)	(2,493)	(877)	(455)	(3,825)	(2,994)	(3,191)	(307)	(6,492)
Amount due for settlement after 12 months	761	–	336	1,097	574	–	791	1,365

### Warranty provision

A warranty provision is made at the time of sale for the estimated cost of providing standard warranty cover which cannot be separated from the sale of the underlying goods. The provision is calculated based on historical information regarding the cost and frequency of repairs required to the Group's products. Warranty cover is typically provided over a period of three to five years, depending on the product and territory concerned. The Group also has back-to-back warranties of between twelve and fifteen months with the majority of its sub-contract manufacturers to limit risk on liabilities arising on manufacturing defects.

### Contingent consideration

Contingent consideration of up to €4.9 million and €2.1 million was payable to the previous owners of Portalify OY and Fylde Micro Limited respectively in the event that revenue and operating profit targets were met over a certain period. €1.8 million was paid during the period to the previous owners of Fylde Micro Limited. Management have considered that, based on management's best estimate, up to €0.9 million may be payable in relation to Portalify OY but no amount has yet been accepted by the previous owners.

### Other

Other provisions relate to potential royalties due on products sold in previous periods. The provision will be released as the related sales pass the statute of limitations for a claim, with the full amount released over a period of three years.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 25. Ordinary share capital

### Authorised share capital

	2017			2016		
	Number	£	€000	Number	£	€000
Authorised						
Ordinary shares of £0.0005 each	400,000,000	200,000	227	400,000,000	200,000	227

### Issued share capital

During the period and the prior period the following changes occurred in the Company's issued, allotted and fully paid share capital of Ordinary shares of £0.0005 each:

	Number	£	Share capital €000	Share premium €000
At 28 March 2015	138,645,431	69,323	79	999
Issue of new shares, net of expenses of €5,173,000, as part of the acquisition of Teltronic SAU	46,538,461	23,269	31	77,423
At 1 April 2016	185,183,892	92,592	110	78,422
Issue of new shares, net of expenses of €4,349,000	185,714,285	92,857	113	73,634
At 31 March 2017	370,898,177	185,449	223	152,056

On 15 July 2016 the Company issued 185,714,285 new Ordinary shares for 35p per Ordinary share by way of a Firm Placing, and Placing and Open Offer (the "Capital Raising"), to reduce the Group's leverage and, in conjunction with amendments made at the same time to its main banking facilities, provide working capital for the Group.

Changes in the Company's issued share capital since the end of the period as a result of the Acquisition are detailed in Note 34.

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

### Treasury shares

During the period and the prior period the following changes occurred in the number of Ordinary shares held in Treasury:

	Number	Aggregate consideration €000	Employee consideration €000
At 28 March 2015	1,220,099		
Purchase of Ordinary Shares for Treasury	2,426,157	5,463	—
Exercise of options under employee share option schemes	(2,829,774)	—	703
At 1 April 2016	816,482		
Exercise of options under employee share option schemes	(775)	—	1
At 31 March 2017	815,707		

Changes in the Company's Treasury shares since the end of the period as a result of the Acquisition are detailed in Note 34.

## 26. Share based payments

Share options have been granted to Directors and employees under the following equity-settled schemes:

### i. Long Term Incentive Plan

The Group launched its Long Term Incentive Plan for senior executives and management in July 2008. Annual awards have been made under the Long Term Incentive Plan which will vest in the event that certain performance targets are met.

### ii. Employee SAYE schemes

Following shareholder approval at the 2008 AGM the Company launched an all-employee SAYE scheme in September 2008.

### iii. Deferred bonus shares

Deferred shares are issued as part of the bonus arrangements for senior management.

The Group recorded an expense of €2,733,000 (2016: €2,840,000) in relation to equity-settled share based payments during the period. Information on the impact of the Acquisition on the Group's share option schemes is provided in Note 34.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 26. Share based payments (continued)

Movements in the total number of share options outstanding and their relative weighted average exercise prices are as follows:

	2017		2016	
	Weighted average exercise price in £ per share	Number of options ('000s)	Weighted average exercise price in £ per share	Number of options ('000s)
At the beginning of the period	0.32	6,785	0.22	8,846
Adjustment arising from equity issue during the period	-	5	-	-
Granted	-	4,076	0.37	2,419
Forfeited and lapsed	0.61	(3,558)	0.06	(1,650)
Exercised	0.02	(50)	0.19	(2,830)
At the end of the period	-	7,258	0.32	6,785

The weighted average share price at the date of exercise of the options exercised during the period was £0.59 (2016: £1.62).

The outstanding options may be analysed as follows:

	2017		2016	
	Weighted Average Exercise price in £ per share	Number of options ('000s)	Weighted average exercise price in £ per share	Number of options ('000s)
Vested and exercisable	-	97	-	-
Unvested	-	7,161	0.32	6,785
		7,258		6,785

Share options outstanding at each reporting date have the following expiry date and exercise prices.

Expiry date	Scheme	Exercise price in £ per share	2017 Number ('000s)	2016 Number ('000s)
31 July 2016	2013 Deferred shares	- <sup>1</sup>	97	97
31 July 2016	2014 LTIP	- <sup>1</sup>	-	1,707
1 March 2017	2014 SAYE 3 year scheme	0.96	-	305
30 April 2017	2012 SAYE 5 year scheme	0.43	-	14
16 June 2017	2015 LTIP	- <sup>1</sup>	1,032	1,032
17 July 2017	2015 Deferred shares	- <sup>1</sup>	34	34
31 July 2017	2014 Deferred shares	- <sup>1</sup>	69	69
28 February 2018	2015 SAYE 3 year scheme	1.19	7	462
1 March 2018	2013 SAYE 5 year scheme	0.54	28	114
16 June 2018	2015 Additional LTIP	- <sup>1</sup>	312	312
5 August 2018	2017 LTIP	- <sup>1</sup>	1,155	-
13 August 2018	2016 LTIP	- <sup>1</sup>	1,401	1,401
4 January 2019	2016 Additional LTIP	- <sup>1</sup>	197	197
10 February 2019	2016 SAYE 3 year scheme	1.29	6	537
1 March 2019	2014 SAYE 5 year scheme	0.96	-	133
5 August 2019	2017 LTIP	- <sup>1</sup>	2,920	-
28 February 2020	2015 SAYE 5 year scheme	1.19	-	227
10 February 2021	2016 SAYE 5 year scheme	1.29	-	144
			7,258	6,785

<sup>1</sup> Not applicable for awards under the LTIP scheme or deferred shares forming part of the short-term bonus arrangements for senior management

The weighted average remaining contractual life of the outstanding options was 1 year and 6 months (2016: 1 year and 8 months); following the completion of the Acquisition on 25 May 2017 a total of 1,328,179 options vested and the remainder lapsed.



# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 26. Share based payments (continued)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the trinomial model. The significant inputs into the model for each grant during the period and the prior period were:

	2017 LTIP	
	Performance based	Service based
Date of grant	5 August 2016	5 August 2016
Share price at grant date	£0.56	£0.56
Exercise price	-	-
Number of employees	43	41
Shares under option	2,920,562	1,155,000
Vesting period	36 months	24 months
Expected volatility (expressed as standard deviation of expected share price returns)	34%	34%
Expected option life	36 months	24 months
Risk free interest rate (based on national Government bonds)	0.22%	0.22%
Dividend yield	-	-
Fair value per option	£0.56	£0.56

	2015 deferred bonus	2016 LTIP	2016 Additional LTIP	2016 SAYE	2016 SAYE
Date of grant	14 July 2015	13 August 2015	4 January 2016	10 August 2015	10 August 2015
Share price at grant date	£1.58	£1.60	£1.86	£1.57	£1.57
Exercise price	-	-	-	£1.29	£1.29
Number of employees	5	46	1	20	32
Shares under option	33,540	1,501,698	196,990	143,573	543,071
Vesting period	24 months	36 months	36 months	60 months	36 months
Expected volatility (expressed as standard deviation of expected share price returns)	10%	34%	20%	33%	33%
Expected option life	24 months	36 months	36 months	63 months	39 months
Risk free interest rate (based on national Government bonds)	2.5%	2.5%	2.5%	2.5%	2.5%
Dividend yield	2.2%	2.2%	2.2%	2.2%	2.2%
Fair value per option	£1.51	£1.50	£1.74	£0.52	£0.46

The expected volatility for options granted during the period and prior period was determined by reference to the Company's share price since Listing in August 2007. Share options are granted under a service condition. Such conditions are not taken into account in the fair value measurement of the services received.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 27. Cash used in operations

	2017 €'000	2016 €'000
Loss before income tax	(149,397)	(19,020)
<b>Adjustments for:</b>		
Depreciation charges	3,399	3,368
Amortisation charges	17,734	13,515
Impairment charges	91,951	8,149
Loss on disposal of fixed assets	218	304
Gain on derivative financial instruments	(56)	-
Equity settled share based payment charge	2,733	2,840
Financial income	(676)	(948)
Financial expense	7,736	4,129
Cash (used in) generated from operations before movements in working capital	(26,356)	12,337
Decrease (increase) in inventories	2,734	(6,363)
Decrease (increase) in trade and other receivables	13,825	(92)
(Decrease) increase in trade and other payables	(19,759)	(13,246)
Decrease in provisions	(1,027)	(2,572)
Movements in working capital	(4,227)	(22,273)
Receipt (release) of restricted cash	3,925	(3,925)
Cash (used in) operations	(26,660)	(13,861)

## 28. Reconciliation of cash flows to movements in net debt

	2017 €'000	2016 €'000
Net increase (decrease) in cash and cash equivalents	1,929	(182)
Net (drawdown) repayment of borrowings	25,843	(103,472)
Release (receipt) of restricted cash	(3,925)	3,925
Arrangement fee	-	1,620
Changes in net debt resulting from cash flows	23,847	(98,089)
Amortisation of debt issue costs	(127)	(301)
Write off unamortised arrangement fee on old facility	(1,196)	(218)
Borrowings acquired with subsidiary undertaking	-	(15,786)
Net movements in net debt	22,524	(114,394)
Net funds (debt) at the beginning of the period	(115,507)	(1,128)
Foreign exchange	(3)	15
<b>Net debt at the end of the period</b>	<b>(92,986)</b>	<b>(115,507)</b>
Net funds (debt) comprises:		
Restricted cash	-	3,925
Cash and cash equivalents	4,180	2,254
Gross borrowings— Amounts due within one year	(87,835)	(74,927)
Amounts due after one year	(9,331)	(48,759)
	(92,986)	(115,507)

## 29. Operating lease commitments

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

	2017			2016		
	Plant and machinery €'000	Property €'000	Total €'000	Plant and machinery €'000	Property €'000	Total €'000
No later than one year	507	1,635	2,142	558	624	1,182
Later than one year and no later than five years	436	5,805	6,241	877	6,652	7,529
More than five years	-	11,208	11,208	-	13,490	13,490
	943	18,648	19,591	1,435	20,766	22,201

The Group rents its principal premises in Waterbeach under a lease which expires on 30 July 2030.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 30. Financial instruments

### Derivative financial instruments

	2017 €'000	2016 €'000
<b>Derivatives that are designated and effective as hedging instruments carried at fair value – cash flow hedges</b>		
Foreign exchange derivative financial instruments (through equity)	(345)	(2,309)

The above foreign exchange derivative financial instruments, which mature at various dates during the coming and subsequent years, represent aggregate sales of €20,605,000 and \$11,509,000 and purchases of £17,653,000 and €10,383,000 (2016: aggregate sales of €33,365,000 and \$8,937,000 and purchases of £25,040,000 and €7,569,000).

### Financial assets and liabilities

The Group's accounting policies for financial instruments have been applied to the items below:

	2017		2016	
	Loans and receivables €'000	Derivatives used for hedging €'000	Loans and receivables €'000	Derivatives used for hedging €'000
<b>Assets as per balance sheet</b>				
Trade and other receivables, excluding prepayments	42,580	–	60,464	–
Derivative financial instruments	–	–	–	–
Cash and cash equivalents	4,180	–	2,254	–
	46,760	–	62,718	–

	2017			2016		
	Liabilities at fair value through profit and loss €'000	Derivatives used for hedging €'000	Other financial liabilities €'000	Liabilities at fair value through profit and loss €'000	Derivatives used for hedging €'000	Other financial liabilities €'000
<b>Liabilities as per balance sheet</b>						
Borrowings, excluding capitalised arrangement fee	–	–	(97,166)	–	–	(123,009)
Derivative financial instruments	–	(345)	–	–	(2,309)	–
Trade and other payables, excluding non-financial instruments	–	–	(33,356)	–	–	(46,680)
Contingent consideration	(877)	–	–	(3,191)	–	–
	(877)	(345)	(130,522)	(3,191)	(2,309)	(169,689)

### Trade receivables

Trade receivables are recognised initially at fair value, which includes discounting as significant where receipt of payment is not expected for more than one year, and subsequently re-measured at amortised cost using the effective interest rate method, less provision for impairment. The unwind of discounting is recognised in finance income across the period to the receipt of cash. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, or default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the consolidated income statement within administrative expenses. When a trade receivable is irrecoverable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the trade receivable impairment provision in the consolidated income statement. Details concerning the credit risk associated with trade receivables are set out in Note 19 above.

### Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into and are subsequently re-measured at their fair value. Details concerning derivative financial instruments are set out above.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Further details are set out in Note 21 above.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 30. Financial Instruments (continued)

### *Fair value estimation*

The fair value of foreign exchange contracts is determined by comparing contracted forward exchange rates with the prevailing exchange rates at the balance sheet date. As a result they fall into "Level 2" of the fair value hierarchy as defined in Paragraph 27A of IFRS 7 "Financial Instruments: Disclosures".

The fair value of the contingent consideration is determined by comparing the contractual terms of the consideration to actual and forecast post acquisition results. As a result the contingent consideration falls into "Level 3" of the fair value hierarchy. The movement in the fair value of the contingent consideration is disclosed in Note 24.

The nominal value less impairment provision of trade receivables and payables approximates to their fair value. The book value of all other financial assets and liabilities approximate to fair value.

### *Financial risk management*

The Group's operations expose it to financial risks that include the effects of changes in certain currency rates, credit risk and interest rate cash flow and fair value risk. The Group has in place risk management procedures that seek to limit the adverse effects on the financial performance of the Group by monitoring the movements in relevant currency and interest rates and a credit control procedure to minimise the risk of customer debt default.

The Board of Directors sets the policies for liquidity, credit and interest rate cash flow and fair value risk, and these are implemented by the Group's finance department which has a procedures manual that sets out specific guidelines for managing currency, interest and credit risk. In circumstances where it is appropriate financial instruments are used to manage those risks.

The financial risks to which the Group is exposed changed following the acquisition of Teltronic. The principal changes were an increased exposure to the Brazilian Real, and an increase in interest rate risk as a result of the additional financing facilities taken out to fund the acquisition.

### *Market risk management*

The Group is not exposed to market risks other than currency and interest rate risks.

### *Foreign exchange risk*

Currency denominated bank accounts are maintained to provide some cover for timing differences, and a currency exchange hedging policy has been agreed by the Board of Directors. The Group primarily invoices its customers in Sterling pounds (GBP), US dollars (US\$), Euros (€) and, following the acquisition of Teltronic, Brazilian Real (B\$), and the majority of the Group's suppliers also trade in these currencies. The exposure to other currencies is not material to the Group's operations.

#### **i. Sterling**

The Group has a partial natural hedge as operating expenses are primarily denominated in Sterling and this exposure is partly offset by Sterling receivables from the Group's UK business. However, there remains a net exposure and the Board has agreed a policy of taking out forward contracts on a rolling twelve month basis to hedge the forecast monthly Sterling operating costs.

The Group had the following current assets and liabilities denominated in Sterling:

	2017 £'000	2016 £'000
Gross contracted amount of outstanding forward contracts	(17,653)	(25,040)
Trade receivables denominated in GBP	1,305	1,513
Sundry receivables denominated in GBP	-	83
Cash balances denominated in GBP	907	185
Trade payables denominated in GBP	(2,678)	(3,043)
Other payables denominated in GBP	(6,303)	(8,128)
Percentage of net current assets not matched by forward contracts	93%	-

The period-end rate and the average rate for the period were as follows:

	2017	2016
Period-end rate	€1.16 / £1	€1.25 / £1
Average rate for the period	€1.19 / £1	€1.31 / £1

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 30. Financial instruments (continued)

### Foreign exchange risk (continued)

#### i Sterling (continued)

If Sterling had weakened or strengthened by 10% against the Euro then the following additional foreign exchange gains (losses) would have been reported in the consolidated income statement or consolidated statement of comprehensive income:

	2017 €'000	2016 €'000
GBP weakens	54	(1,778)
GBP strengthens	(49)	1,956

#### ii. US Dollar

Purchases and receipts in US dollars are dealt with through the Group's US dollar current account, with further purchases of currency to meet US dollar denominated liabilities being made as necessary on a spot basis. Any significant US dollar revenues or purchases are hedged on order confirmation.

The Group had the following current assets and liabilities denominated in US dollars:

	2017 \$'000	2016 \$'000
Gross contracted amount of outstanding forward contracts	11,509	8,937
Trade receivables denominated in US dollars	1,625	8,630
Cash balances denominated in US dollars	1,042	69
Trade payables denominated in US dollars	(2,267)	(5,467)
Percentage of net current assets not matched by forward contracts	(307)%	--

The period-end rate and the average rate for the period were as follows:

	2017	2016
Period-end rate	\$1.07 / €1	\$1.13 / €1
Average rate for the period	\$1.10 / €1	\$1.10 / €1

If the US dollar had weakened or strengthened by 10% against the Euro then the following additional foreign exchange gains (losses) would have been reported in the consolidated income statement or consolidated statement of comprehensive income:

	2017 €'000	2016 €'000
US dollar weakens	132	459
US dollar strengthens	(120)	(505)

#### iii. Brazilian Real

Purchases and receipts in Brazilian Real are dealt with through the Group's Brazilian Real current account, with further purchases of currency to meet Brazilian Real denominated liabilities being made as necessary on a spot basis.

The Group had the following current assets and liabilities denominated in Brazilian Real:

	2017 R\$'000	2016 R\$'000
Gross contracted amount of outstanding forward contracts	--	--
Trade receivables denominated in Brazilian Real	24,114	39,268
Cash balances denominated in Brazilian Real	--	324
Trade payables denominated in Brazilian Real	(694)	(2,043)
Other payables denominated in Brazilian Real	(1,161)	--
Percentage of net current assets not matched by forward contracts	100%	100%

## Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

### 30. Financial Instruments (continued)

#### Foreign exchange risk (continued)

##### iii Brazil Real (continued)

The period-end rate and the average rate for the period were as follows:

	2017	2016
Period-end rate	R\$3.35 / €1	R\$4.08 / €1
Average rate for the period	R\$3.58 / €1	R\$3.96 / €1

If the Brazilian Real had weakened or strengthened by 10% against the Euro then the following additional foreign exchange gains (losses) would have been reported in the consolidated income statement or consolidated statement of comprehensive income:

	2017 €'000	2016 €'000
Brazilian Real weakens	(553)	(843)
Brazilian Real strengthens	503	927

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and short-term deposits and the availability of funding through an adequate amount of committed credit facilities. The Group has received confirmation from the Group's ultimate parent company that it will provide sufficient financial support to ensure that the Group can meet its obligations as they fall due.

The table below analyses the Group's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one year €'000	Between 1 & 2 years €'000	Between 2 & 5 years €'000
At 31 March 2017			
Borrowings	87,835	9,331	–
Trade and other payables, excluding non-financial instruments	33,356	–	–
Contingent consideration	877	–	–
At 1 April 2016			
Borrowings	74,927	11,392	35,567
Trade and other payables, excluding non-financial instruments	46,675	–	–
Contingent consideration	3,191	–	–

Borrowings are Euro-denominated.

#### Cash flow and fair value interest rate risk

The Group had interest bearing cash deposits of €1,468,000 (2016: €266,000).

The Group's outstanding borrowings comprise €13,169,000 (2016: €10,947,000) which bears interest at fixed rates and €83,997,000 (2016: €106,246,000) which bears interest at floating rates as set out in Note 22 above, exposing the Group to cash flow interest rate risk. A change of 1% in interest rates at the balance sheet date, applied to borrowings outstanding at that point in time, would have had a €840,000 impact on the Group's reported results (2016: €1,061,000).

#### Off-settling

Cash balances of €nil (2016: €6,706,000) have been off-set against bank overdrafts where there is a legal right of set-off.

#### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group comprises borrowings (as disclosed in Note 22), cash and cash equivalents (as disclosed in Note 21) and the equity attributable to equity holders in the parent company (comprising the issued share capital, share premium, other reserves and retained earnings disclosed in the Consolidated Statement of Changes in Equity). At 31 March 2017 the Group had net assets of €60,469,000 (2016: €137,856,000) which included net debt of €92,986,000 (2016: Net debt of €115,507,000). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, borrow additional funds or sell assets to reduce debt. The Group is not subject to externally imposed capital requirements.

# Notes to the Group Financial Statements (continued)

For the period ended 31 March 2017

## 31. Contingent liabilities

The Group has entered into guarantee and performance bond arrangements with its customers totalling approximately €16.2 million (2016: €12.5 million). The Group is also subject to disputes with suppliers during the ordinary course of business. Provision is made for any amounts that the Directors consider will probably become payable under such arrangements.

## 32. Ultimate controlling party

The Directors do not consider that Sepura plc had an ultimate controlling party as of 31 March 2017, as no individual shareholder was able to exercise control over the Company.

Following the completion of the Acquisition on 25 May 2017, the Directors consider that:

- › the immediate parent company is Project Shortway Limited, a company registered in England and Wales;
- › the ultimate parent company is Hytera Communications Corporation Limited, a company incorporated in the People's Republic of China; and
- › the ultimate controlling party is Mr Chen Qingzhou who is the majority voting rights holder in Hytera Communications Corporation Limited

## 33. Related party transactions

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the key management personnel of the Group is disclosed in Note 10. In addition, £155,000 of fees were charged by Corporate Development Partnership Limited during the period in respect of services provided by Andrew Leeson following his appointment as a Director, of which £11,000 was outstanding at the end of the year. There are no other transactions with related parties.

## 34. Post balance sheet events

On 16 December 2016 the Board announced it was recommending a cash offer for the Company by Project Shortway Limited, a wholly-owned subsidiary of Hytera Communications Corporation Limited ("the Acquisition"). The Acquisition was completed on 25 May 2017 and pursuant to the Acquisition:

### Share capital and share options

- › A total of 1,155,000 awards granted under the Company's Long-Term Incentive Plan vested and were satisfied by the transfer from Treasury of all 815,707 of the Company's ordinary shares held in Treasury together with the issue of 339,293 new Ordinary shares in the Company;
- › A total of 173,179 awards granted under the Company's Deferred Bonus Plan vested and the accrued benefits were cancelled in return for a cash settlement;
- › All other awards under the Company's share option schemes lapsed on completion of the Acquisition; and
- › Dealings in the Company's Ordinary shares on the London Stock Exchange's main market for listed securities and the listing of the Company's Ordinary shares on the premium listing segment of the Official List of the UK Listing Authority were suspended, and applications were successfully made to delist the Company's Ordinary shares from the former and to cancel the admission to trading of the latter.

### Banking facilities

- › Under the terms of the Group's syndicated banking facilities, all outstanding amounts became repayable on completion of the Acquisition; and
- › The Company entered into intercompany loan agreements with other subsidiaries of Hytera Communications Corporation Limited on 24 May 2017 which were drawn down to settle the outstanding amounts due under the Group's syndicated banking facilities.

### Board changes

- › All of the Company's Non-Executive Directors, together with the Interim Chief Executive Officer, resigned from the Board following the completion of the Acquisition.

# Independent Auditors' Report to the Members of Sepura plc

## Report on the parent company financial statements

### Our opinion

In our opinion, Sepura plc's parent company financial statements (the "financial statements"):

- › give a true and fair view of the state of the parent company's affairs as at 31 March 2017;
- › 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.

### What we have audited

The financial statements, included within the Annual Report and Accounts ("Annual Report"), comprise:

- › the Company Balance Sheet as at 31 March 2017;
- › the Company Statement of Changes in Equity for the year then ended; and
- › the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## Opinions 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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- › the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Parent Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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

- › the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

## Other matters on which we are required to report by exception

### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- › we have not received all the information and explanations we require for our audit; or
- › adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- › the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- › the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



## Independent Auditors' Report to the Members of Sepura plc (continued)

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the Directors are responsible for the preparation of the 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- › whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- › the reasonableness of significant accounting estimates made by the Directors; and
- › the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

#### Other matter

We have reported separately on the Group financial statements of Sepura plc for the 52 week period ended 31 March 2017.



**Matthew Mullins (Senior Statutory Auditor)**  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge  
28 September 2017

# Company Balance Sheet

Of Sepura plc, Company number 04353801, as at 31 March 2017

	Note	2017 €'000	2016 €'000
<b>Fixed assets</b>			
Tangible assets	3	10,727	16,009
Intangible assets	4	29,340	41,772
Investments in subsidiaries	5	64,100	142,500
<b>Total fixed assets</b>		<b>104,167</b>	<b>200,281</b>
<b>Current assets</b>			
Stock	6	12,842	13,397
Debtors	7	32,106	55,541
Restricted cash	9	-	3,925
Derivative financial instruments	10	30	-
Cash at bank and in hand		2,011	402
<b>Total current assets</b>		<b>47,089</b>	<b>73,265</b>
<b>Current liabilities</b>			
Creditors: Amounts falling due within one year	12	(97,208)	(105,761)
Provisions for liabilities	13	(1,174)	(3,866)
		<b>(98,382)</b>	<b>(109,627)</b>
<b>Net current liabilities</b>		<b>(51,293)</b>	<b>(36,362)</b>
<b>Total assets less current liabilities</b>		<b>52,874</b>	<b>163,919</b>
Creditors: Amounts falling due after more than one year	12	(2,265)	(42,730)
Provision for liabilities	13	(761)	(574)
<b>Net assets</b>		<b>49,848</b>	<b>120,615</b>
<b>Capital and reserves</b>			
Called-up share capital	14	223	110
Share premium	14	152,056	78,422
Other reserves		(750)	(690)
(Accumulated losses) retained earnings		(101,681)	42,773
<b>Total equity</b>		<b>49,848</b>	<b>120,615</b>

Sepura plc reported a loss for the financial year of €145.9 million (2016: €24.8 million).

The parent company financial statements on pages 57 to 65 were approved by the Board for issue on 28 September 2017 and are signed on its behalf by:



**Richard Smith**  
Chief Financial Officer

# Company Statement of Changes in Equity

Of Sepura Plc, Company number 04353801 for the year ended 31 March 2017

	Share capital €'000	Share premium €'000	Other reserves €'000	Retained earnings (Accumulated losses) €'000	Total equity €'000
At 27 March 2015	79	999	(275)	80,770	81,573
Loss for the period	–	–	–	(24,765)	(24,765)
Other comprehensive expense for the period	–	–	(415)	(4,232)	(4,647)
Total comprehensive expense	–	–	(415)	(28,997)	(29,412)
<b>Transactions with owners</b>					
Tax on share option schemes	–	–	–	(696)	(696)
Employee share option schemes: value of employee services	–	–	–	2,840	2,840
Equity dividends paid	–	–	–	(6,384)	(6,384)
Issue of shares	31	77,423	–	–	77,454
Treasury shares – purchase of own shares	–	–	–	(5,463)	(5,463)
Treasury shares – issue of shares to settle employee share options	–	–	–	703	703
Total transactions with owners	31	77,423	–	(9,000)	68,454
At 1 April 2016	110	78,422	(690)	42,773	120,615
Loss for the period	–	–	–	(145,852)	(145,852)
Other comprehensive expense for the period	–	–	(60)	1,657	1,597
Total comprehensive expense	–	–	(60)	(144,195)	(144,255)
<b>Transactions with owners</b>					
Tax on share option schemes	–	–	–	(2,993)	(2,993)
Employee share option schemes: value of employee services	–	–	–	2,733	2,733
Issue of shares	113	73,634	–	–	73,747
Treasury shares – issue of shares to settle employee share options	–	–	–	1	1
Total transactions with owners	113	73,634	–	(259)	73,488
<b>At 31 March 2017</b>	<b>223</b>	<b>152,056</b>	<b>(750)</b>	<b>(101,681)</b>	<b>49,848</b>

The accompanying notes are an integral part of these financial statements.

# Notes to the Parent Company Financial Statements

For the period ended 31 March 2017

## 1. Principal accounting policies

### *Basis of accounting*

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard ("FRS") 100 issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS 101 "Reduced Disclosure Framework" as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The Company has prepared these financial statements for the 52 week period to 31 March 2017, being the nearest Friday to the end of the period.

The financial statements are prepared on a going concern basis and in accordance with the historical cost convention, except for certain financial instruments that have been measured at fair value. The principal accounting policies adopted are the same as those set out in Note 4 to the consolidated financial statements except as noted below. The critical accounting judgements and key sources of estimation uncertainty are the same as those set out in Note 5 to the consolidated financial statements.

Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment.

Under FRS101 a company which is a member of a group that prepares publicly available consolidated financial statements which give a true and fair view is able to apply certain financial disclosure exemptions. The Company intends to continue to apply these exemptions to the Company's financial statements for the year ending 31 March 2018. Shareholders wishing to object to the use of these exemptions should contact the Company Secretary at the Company's registered office.

## 2. Result for the financial period

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. The parent company's loss after taxation was €145.9 million (2016: €24.8 million).

The average number of employees of the Company during the period was 283 (2016: 324) and total staff costs, excluding charges for share options, were €25.2 million (2016: €26.8 million). Information on the remuneration of Directors is given in those sections of the Directors' Remuneration Report described as having been audited and Note 10 to the Company's consolidated financial statements, and those elements required by the Companies Act 2006.

The auditors' remuneration for audit and other services is disclosed in Note 8 to the consolidated financial statements.

# Notes to the Parent Company Financial Statements (continued)

For the period ended 31 March 2017

## 3. Tangible assets

	Assets under construction €'000	Plant and machinery €'000	IT equipment €'000	Total €'000
<b>Cost</b>				
At 2 April 2016	1,655	23,709	2,919	28,283
Foreign exchange	–	(36)	(1)	(37)
Transfers	(1,596)	1,596	–	–
Additions	11	577	525	1,113
Disposals	–	(5,830)	(1,771)	(7,601)
<b>At 31 March 2017</b>	<b>70</b>	<b>20,016</b>	<b>1,672</b>	<b>21,758</b>
<b>Accumulated depreciation</b>				
At 2 April 2016	–	9,842	2,432	12,274
Foreign exchange	–	(15)	–	(15)
Charge for the period	–	1,627	300	1,927
Impairment	–	4,228	–	4,228
Disposals	–	(5,618)	(1,765)	(7,383)
<b>At 31 March 2017</b>	<b>–</b>	<b>10,064</b>	<b>967</b>	<b>11,031</b>
<b>Net book value at 31 March 2017</b>	<b>70</b>	<b>9,952</b>	<b>705</b>	<b>10,727</b>
Net book value at 1 April 2016	1,655	13,867	487	16,009

There was no capital expenditure at the end of either period which had been contracted for prior to the end of the period but not provided for in the financial statements.

## 4. Intangible assets

	Capitalisation of development costs €'000	Software and Similar licences €'000	Total €'000
<b>Cost</b>			
At 2 April 2016	127,340	6,496	133,836
Additions	4,587	579	5,166
Disposals	–	(3,336)	(3,336)
<b>At 31 March 2017</b>	<b>131,927</b>	<b>3,739</b>	<b>135,666</b>
<b>Accumulated amortisation</b>			
At 2 April 2016	88,167	3,897	92,064
Charge for the period	7,863	338	8,201
Impairment	7,267	2,130	9,397
Disposals	–	(3,336)	(3,336)
<b>At 31 March 2017</b>	<b>103,297</b>	<b>3,029</b>	<b>106,326</b>
<b>Net book value at 31 March 2017</b>	<b>28,630</b>	<b>710</b>	<b>29,340</b>
Net book value at 1 April 2016	39,173	2,599	41,772

The only individually material intangible asset comprises the capitalised development costs for the Next Generation platform, which have a carrying value of €23.5 million at 31 March 2017 (2016: €29.1 million) and remaining amortisation period of 70 months (2016: 82 months).

The events and circumstances which led to the impairment loss recorded are disclosed in Note 15 of the consolidated financial statements.

The amortisation charge for each period has been included within the following captions of the consolidated income statement:

	2017 €'000	2016 €'000
Research and development costs	7,863	3,574
Administrative expenses	338	312
	<b>8,201</b>	<b>3,886</b>

# Notes to the Parent Company Financial Statements (continued)

For the period ended 31 March 2017

## 5. Investments

			2017	2016
	Equity investment €'000	Quasi-equity loan to a subsidiary undertaking €'000	Total €'000	€'000
<b>Shares in Group undertakings</b>				
At the beginning of the period	58,500	84,000	142,500	25,013
Acquisition of Teltronic SAU	–	–	–	127,553
Impairment of investments	–	(79,400)	(79,400)	(10,072)
Additional investment in existing subsidiary undertakings	1,000	–	1,000	–
Investment in newly-incorporated subsidiaries	–	–	–	6
At the end of the period	59,500	4,600	64,100	142,500

The impairment charge for the current and prior periods reflect the impact of reduced forecast profitability of the Group's subsidiary undertakings.

The Company owns the entire issued share capital of the following subsidiary undertakings, whose results are included within the consolidated financial statements of Sepura plc for the year ended 31 March 2017:

Name of undertaking	Registered Office	Proportion of nominal value of shares held by the Company	Principal activity
Sepura Systems GmbH	Eitnergasse 13 1230 Vienna Austria	100%	Trading
Fyde Micro Limited	9000 Cambridge Research Park, Beach Drive, Waterbeach, Cambridge, United Kingdom, CB25 9TL	100%	Trading
Portalfy OY	Upseerinkatu 1-3 02600 Espoo Finland	100%	Trading
Smashlet OY*	Upseerinkatu 1-3 02600 Espoo Finland	100%	Dormant
Sepura Deutschland GmbH	Parking 31 85748 Garching bei München Germany	100%	Sales support
Sepura Serviços de Intermediação e Marketing em Equipamentos de Rádio Ltda*	Rua Butantã, 461 - Conjunto 62 Edifício Butantã - Pinheiros CEP 05424-140 São Paulo / SP Brazil	100%	Sales support
Sepura LLC	Suite 1300 11757 Katy Fwy Houston TX 77079 USA	100%	Sales support
Sepura Mexico, S.A. de C.V.	Navarra 210 Benito Juárez Distrito Federal 03400	100%	Sales support
Sepura Overseas Limited	9000 Cambridge Research Park, Beach Drive, Waterbeach, Cambridge, United Kingdom, CB25 9TL	100%	Holding company
Sepura Pty Limited	17/270 Ferntree Gully Road, Notting Hill, Victoria 3168, Australia	100%	Sales support
Sepura Spain Holdings SL	Polígono Malpica, calle F-Oeste, Zaragoza, Spain	100%	Holding company
Teltronic S.A.U.*	Polígono Malpica, calle F-Oeste, Zaragoza, Spain	100%	Trading
Powertrunk Inc*	615 South DuPont Highway, Dover, Kent County, Delaware 19901	100%	Trading
Powertrunk Groupe, Inc *	3700-800 Place Victoria, Montreal, Quebec. H4Z 1E9, Canada	100%	Dormant
Teltronic Andina Ltda *	Edificio Centro Ejecutivo II Calle 81 N° 11-68, Oficinas: 413-414, Bogotá, D.C. Colombia	100%	Trading
Teltronic Peru *	Calle Los Tulipanes, 147 Edificio Blu. Oficina 1103 Urb. Lima Polo & Hunt Club Santiago de Surco Lima Peru	100%	Trading
Teltronic Brasil Ltda *	Avenida dos Imarés, n. 765, Indianópolis, Brazil, ZIP 04.085-001.	100%	Trading
Teltronic Singapur PTE Ltd *	3 Anson Road, #27-01 Springleaf Tower. 079909 Singapore	100%	Trading
Teltronic SA Company Ltd *	PO Box 864, Jeddah 21421, Saudi Arabia	100%	Trading
Teltronic Redes y Serv., SAU *	Polígono Malpica, calle F-Oeste, Zaragoza, Spain	100%	Dormant

\* Held indirectly

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

# Notes to the Parent Company Financial Statements (continued)

For the period ended 31 March 2017

## 6. Stocks

	2017 €'000	2016 €'000
Raw materials	3,534	2,903
Work in progress	3,126	2,714
Finished goods and goods for resale	6,282	7,780
	12,942	13,397

Stock is stated after provision for impairment of €8,291,000 (2016: €4,856,000). There is no material difference between the balance sheet value of the stock and its replacement value.

## 7. Debtors

	2017 €'000	2016 €'000
Amounts falling due within one year:		
Trade receivables	21,505	29,451
Less: provision for impairment of receivables	(6,381)	(2,654)
Trade receivables (net)	15,124	26,797
Amounts owed by Group undertakings	10,163	11,762
RDEC receivable	1,929	3,375
Other receivables	549	2,100
Prepayments and accrued income	2,935	1,904
Deferred tax asset (Note 8)	1,406	9,603
	32,108	55,541

## 8. Deferred tax

The Company's deferred tax assets and liabilities totalled €6,852,000 (2016: €17,251,000) and €5,446,000 (2016: €7,648,000) respectively relate to timing differences in respect of:

	Capitalised development costs €'000	Cash-flow hedges €'000	Tangible fixed assets €'000	Losses €'000	Equity-settled share options €'000	Net €'000
At 2 April 2016	(7,648)	301	1,789	12,499	2,662	9,603
Recognised in income	2,208	—	1,448	(9,099)	546	(4,897)
Recognised in equity	—	(307)	—	—	(2,993)	(3,300)
At 31 March 2017	(5,440)	(6)	3,237	3,400	215	1,406

Deferred tax liabilities have been offset against deferred tax assets as there is a legally enforceable right to offset current tax assets and current tax liabilities within the same fiscal jurisdiction.

The Group's deferred tax assets have been recognised in accordance with IAS 12 to the extent that, based on historical performance and future budgets, the Directors believe that it is probable that there will be sufficient taxable profits against which the assets will reverse. In the light of the reduction in forecast profitability of the Group €13,975,000 of potential deferred tax assets relating to trading losses have not been recognised.

The Finance Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 to 31 March 2020 and 18% effective from 1 April 2020, was substantively enacted on 18 November 2015.

A further reduction in the main rate of corporation tax from 19% to 17% from 1 April 2020 was announced in the March 2016 Budget, and was substantively enacted as part of Finance Bill 2016 on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

## 9. Restricted cash

The Company received €3.9 million of advance payments from a customer in FY16 that were treated as "restricted cash" in accordance with IAS 7 "Statement of cash flows" as, although the funds were held in a separate amount in the Company's name, they were not available for general use until predetermined periods had lapsed following the delivering of the related goods. All of the periods lapsed during FY17, lifting all such restrictions.

# Notes to the Parent Company Financial Statements (continued)

For the period ended 31 March 2017

## 10. Derivative financial instruments

Derivative financial instruments comprise foreign exchange forward contracts. Further details are given in Note 30 to the Company's consolidated financial statements.

## 11. Borrowings

*Borrowings outstanding at the end of the period*

	2017 €'000	2016 €'000
Bank borrowings, all of which are denominated in Euros, are repayable as follows:		
Within one year	77,463	70,454
In the second year	190	9,676
In the third to fifth year inclusive	–	28,825
	77,653	108,955
Less: amounts due for settlement within 12 months (shown under current liabilities)	(77,463)	(70,454)
Amount due for settlement after 12 months	190	38,501

Further details of the facilities the Company has entered into are given in Note 22 to the Company's consolidated financial statements.

## 12. Creditors: Amounts falling due within one year

	2017 €'000	2016 €'000
Trade payables	8,188	17,662
Other taxation and social security	944	1,855
Accruals and deferred income	10,575	13,774
Borrowings (Note 11)	77,463	70,454
Derivative financial instruments	–	2,016
Income tax payable	38	–
	97,208	105,761

## *Creditors: amounts falling due after more than one year*

	2017 €'000	2016 €'000
Borrowings	190	38,501
Accruals and deferred income	2,075	4,229
	2,265	42,730



# Notes to the Parent Company Financial Statements (continued)

For the period ended 31 March 2017

## 13. Provision for liabilities

	2017			2016		
	Warranty provision €'000	Contingent consideration €'000	Total €'000	Warranty provision €'000	Contingent consideration €'000	Total €'000
At the beginning of the period	1,249	3,191	4,440	896	6,998	7,894
Foreign exchange	–	(126)	(126)	–	–	–
Subsequent release of part of the contingent consideration	–	(406)	(406)	–	(2,827)	(2,627)
Charged to the profit and loss account	345	–	345	353	–	353
Settled or utilised in period	(536)	(1,782)	(2,318)	–	(1,180)	(1,180)
At the end of the period	1,058	877	1,935	1,249	3,191	4,440
Less amounts due for settlement within 12 months	(287)	(877)	(1,174)	(675)	(3,191)	(3,866)
Amounts due for settlement after 12 months	761	–	761	574	–	574

### Warranty provision

The warranty provision is an estimate of the future costs of rectifying potential defects in products shipped to customers whilst they are under warranty cover. Warranty cover is typically provided over a period of three to five years, depending on the product and territory concerned. The Company also has back-to-back warranties of between twelve and fifteen months with the majority of its sub-contract manufacturers to limit risk on liabilities arising on manufacturing defects.

### Contingent consideration

Contingent consideration of up to €4.9 million and €2.1 million was payable to the previous owners of Portalify OY and Fylde Micro Limited respectively in the event that revenue and operating profit targets were met over a certain period. €1.8 million was paid during the period to the previous owners of Fylde Micro Limited. Management have considered that, based on the final calculation, up to €0.9 million may be payable in relation to Portalify OY but no amount has yet been accepted by the previous owners.

## 14. Called up share capital

The movements in share capital, the share premium account and treasury shares are disclosed in Note 25 to the consolidated financial statements.

The dividends paid in the year are disclosed in Note 14 of the consolidated financial statements. The Directors have not recommended the payment of a final dividend for the year.

## 15. Share based payments

Information on share options which have been granted to Directors and employees is given in Note 26 to the consolidated financial statements.

## 16. Operating lease commitments

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

	2017			2016		
	Plant and machinery €'000	Property €'000	Total €'000	Plant and machinery €'000	Property €'000	Total €'000
No later than one year	357	1,421	1,778	427	29	456
Later than one year and no later than five years	257	5,778	6,035	751	5,551	6,302
More than five years	–	11,208	11,208	–	13,490	13,490
	614	18,407	19,021	1,178	19,070	20,248

## 17. Contingent liabilities

The Company has entered into guarantee and performance bond arrangements with its customers totalling approximately €0.2 million (2016: €0.9 million). The Company is also subject to disputes with suppliers during the ordinary course of business. Provision is made for any amounts that the Directors consider will probably become payable under such arrangements.

Under sections 394A and 479A of the Companies Act 2006, the Company has guaranteed all of the outstanding liabilities of Fylde Micro Limited as at 31 March 2017, which totalled €11,000, until they are satisfied in full. The guarantee is enforceable against the Company by any person to whom any such liability is due.

## Notes to the Parent Company Financial Statements (continued)

For the period ended 31 March 2017

### 18. Related party transactions

The Company has taken advantage of the exemption available to parent companies under FRS 101:8(j) and FRS 101:8(k) not to disclose key management personnel compensation and transactions and balances with wholly owned subsidiary undertakings.

### 19. Ultimate controlling party

The Directors do not consider that Sepura plc had an ultimate controlling party as of 31 March 2017, as no individual shareholder was able to exercise control over the Company.

Following the completion of the Acquisition on 25 May 2017, the Directors consider that:

- › the immediate parent company is Project Shortway Limited, a company registered in England and Wales;
- › the ultimate parent company is Hytera Communications Corporation Limited, a company incorporated in the People's Republic of China; and
- › the ultimate controlling party is Mr Chen Qingzhou who is the majority voting rights holder in Hytera Communications Corporation Limited

### 20. Post balance sheet event

Information on post balance sheet events is provided in Note 34 of the consolidated financial statements.