Interim report for the first quarter of 2017

Unified Messaging Systems ASA

Foto: Heiko Junge/ NTB Scanpix

First Quarter of 2017 in brief

- Revenues of NOK 21.5 million vs. NOK 20.3 million in the first quarter of 2016 – an increase of 6%
- Recurring revenues of NOK 14.1 million vs. NOK 12.7 million in the first quarter of 2016 – an increase of 11%
- EBITDA negative NOK 5.8 million vs. negative NOK 2.7 million in the first quarter of 2016
- Successful cost reduction process, estimated to NOK 15 million annually, with full effect from September 2017
- Awarded the contract for delivery of a public warning system to two coastal states in India
- Signed contracts for location based alerting with some of the most populated municipalities in Norway; Oslo, Bergen, Asker and Bærum. In addition, a contract for location based alerting was signed with one of the plants of Yara
- Announced change in strategy and increased focus and resources towards sales activities
- Established UMS France
- Guiding to grow the recurring revenue with 20% at year-end compared to year beginning

Subsequent events:

- Previstar, a UMS subsidiary, was awarded a strategically important contract with the Commonwealth of Virginia

Key figures

	FIRST QUARTER		
	2017	**2016**	**% change**
Total operating revenues	21 455 596	20 283 507	6 %
- Of which recurring revenues (core services)	14 114 494	12 674 151	11 %
EBITDA	-5 846 177	-2 672 429	NA
Operating profit/loss (-) (EBIT)	-11 480 900	-6 995 332	NA
Profit/loss (-) before tax	-11 895 458	-7 232 839	NA
Basic and diluted earnings per share	-0,07	-0,06	NA
Net cash flow from operating activities	10 292 843	15 788 879	NA
Net cash flow from investing activities	-3 443 719	-3 922 347	NA
Equity	30 586 438	-4 942 499	NA

1) Recurring revenues consist of support & maintenance in SaaS and PAS contracts

Market development

The company has through the first quarter continued to see a positive uptake in the market. This is a trend that is expected to continue because of a more mature market for our services and solutions. With more formal tender processes in the market, UMS sees a positive increase in the customer pipeline in most segments.

There is a positive increase in customer requests and formal tender processes for planning, resource and crisis management solutions both in the US and India. Particularly within the public sector. This is an area where we expect to see additional growth going forward.

The market for Population Alert continues to mature after years of education of Governments, States and Municipalities. The company is now responding to an increased amount of formal tender processes for these solutions. This positive development is applicable for both large national tenders and for location based solutions for municipalities, industries and universities.

The market for service alert solutions in Europe is continuing to grow. It is key for UMS to focus on building a solid customer pipeline in all markets the company is operating in. The company expects a substantial growth in formal tender processes within this segment going forward driven primarily by demand from the public sector and industry. UMS considers UK, Finland and Sweden to be the markets with the largest growth opportunities going forward.

For the Group Alert Solution, the company continues to focus on winning customers in several markets from emergency preparedness to hospitals, airports and organizations.

Technology development and innovation

As a consequence of being in the final stage of the development of its new generation software for warning and notification, the company will in 2017 adjust its strategy and increase focus and resources to sales activities. Consequently, the company announced on 13 January 2017 that it will reduce development costs, both with regards to consultants and employees. Other positions will also be affected. The total reduction in employee- and consultancy costs is estimated to minimum NOK 15 million annually, with full effect from the third quarter of 2017. The cost reductions have not impacted the income statement in the first quarter.

However, in the first quarter of 2017 the company continued the development of its new generation software. Of the total expenditures, approximately NOK 3.4 million were capitalized, down from NOK 3.9 million in the first quarter of 2016.

Revenues and ebitda

UMS's ambition is to be a company that largely delivers standardized software solutions, and not to perform extensive customized development. To accomplish this, the Company develops solutions that in its basic version and standard modules shall fulfill most customer requirements. During the latest years, the market for alert services has become more mature and large corporations and the public sector has increased its demand for alert services. The competition in the market has also increased.

RECONCILIATION RECURRING REVENUES TO TOTAL REVENUES

	First quarter		
	2017	2016	% change
Recurring revenues	14 114 494	12 674 151	11 %
Non-core services	640 244	1 326 498	-52 %
Other revenues	6 700 858	6 282 858	7 %
Total revenues	**21 455 596**	**20 283 507**	**6 %**

Recurring revenues consist of support & maintenance for SaaS and PAS contracts.

In previous quarters revenue from traffic (SMS/voice) was included in recurring revenue. However, the Company considers traffic to be a consequence of a number of different factors and not a driver of value by itself. Recurring revenue will therefore consist of support & maintenance for SaaS and PAS contracts going forward.

The reported IFRS-figures for recurring revenue will normally deviate from the growth in recurring revenue comparing year beginning to year-end. The latter is a point to point comparison looking at the total value of contracts that will be recognized as revenue in the coming periods, while the IFRS figure shows an average growth from quarter to quarter.

Other revenues consist primarily of one-time license fees and deployment for PAS contracts, establishment fees for new SaaS contracts, and consultancy fees for SaaS and PAS contracts. Media-related services, which are being phased out are shown separately as non-core services in the table above.

THE GROUP HAS TWO MAIN PRODUCTS AND SERVICE AREAS

POPULATION ALERT (PAS), where the company's software system is licensed to, and installed at the customers' premises. With the acquisition of the Location Based Alert Services' business from CellVision in 2015, the Group also started delivering location based services to telecom operators. With the acquisition of Previstar Inc. in 2016, the Group also offers solutions for crisis management. Revenues from sales of these products and services are included in PAS. For PAS, revenues are generated by sales of: Set-up and installation of hardware, set-up and installation of software, hardware, software licenses, maintenance, support and consultancy services. Revenues for PAS services started with a contract in the Netherlands in 2010. Reference is made to the Group's first IFRS financial statements for 2016, note 1 "accounting principles", subsections "revenue recognition" and "significant judgements in the application of group accounting policies and accounting estimates" for further discussion of the principles used for revenue recognition.

GROUP AND SERVICE ALERT (SaaS - Software as a Service), where the services are delivered using a common platform. For SaaS, the customer may pay fees for set-up, training and access to modules (establishment fee), and an annual fee for the ongoing services. The ongoing services include support and benefit of maintenance of the chosen modules. The customer may also purchase consultancy services and traffic based on actual use. Unless terminated earlier than three months before year-end, the contract is extended for the subsequent year. Revenues from SaaS is generated by a large customer base, and is normally relatively stable from period to period, affected by new contracts and termination of existing contracts.

REVENUES BY PRODUCTS AND SERVICES AREA

	First quarter			Year
	2017	2016	% change	2016
Population Alert	7 731 224	6 995 483	11 %	34 340 610
Software as a Service	13 081 228	11 858 113	10 %	55 503 918
Non-core services	643 144	1 429 911	-55 %	4 053 207
Total revenues	**21 455 596**	**20 283 507**	**6 %**	**93 897 735**

SaaS revenues have increased as most customers have chosen to renew their contracts and some new customers have been secured.

The PAS area is a strategic focus area, in which the Group has been able to win several important contracts over the latest years. The largest contract was signed in 2013 for a delivery in Sweden. Revenue recognition on this contract started in the second half of 2014, and the main part of revenue is recognized straight line over the minimum contract period to the first quarter of 2020. This contract contributed revenues of NOK 3.7 million in the first quarter of 2017 compared to NOK 3.8 million for the same period the previous year. Previstar's revenues have been included in the consolidation from 1 April 2016, and contributed with revenues of NOK 1.4 million in the first quarter of 2017. No significant revenues were recognized from new contracts in the first quarter of 2017 or 2016.

At 31 March 2017, the Group had received payment or issued invoices, but not recognized revenues of NOK 67.3 million (deferred revenues), of which NOK 43.1 million relates to PAS contracts. Deferred revenues at 31 March 2016 amounted to NOK 62.3 million, and NOK 36.3 million at 31 December 2016.

The Group's operating expenses are primarily affected by costs related to its sales resources, internal and external costs related to developing, maintaining and providing support related to its software, deliveries of traffic and hardware to customers as well as corporate and administrative functions.

EBITDA was negative NOK 5.8 million in the first quarter, compared to negative NOK 2.7 million for the same period in 2016.The cost base in is still too high compared to the Group's revenues. See description elsewhere in this report of the adjustment to the strategy and increased focus and resources on sales activities.

Depreciation and amortization

Depreciation and amortization increased by 30% to NOK 5.6 million in the first quarter of 2017 compared to the same period the previous year. The increase is primarily due to capitalization of development expenditures. The high amounts of amortization in the periods presented in this report is a consequence of capitalization of development of the new generation software starting in 2013, and the acquisitions of technology through acquisitions in 2015 and 2016. The software and technology assets are currently amortized over four years.

Financial items

Net financial expenses increased by 75% to NOK 0.4 million in the first quarter of 2017 compared to the same period the previous year. The increase is primarily due to currency losses on group internal receivables and payables in the first quarter 2017, partially offset by a NOK 0.9 million gain on settlement of liabilities in Previstar, see note 4.

Income tax

Income taxes reported in the period relates to projected income taxes in UMS India.
The Group has significant amounts of tax reducing temporary difference for which no deferred tax assets have been recognized.

Losses for the period

Due to the development as explained above, the Group reported losses in the first quarter of 2017. Basic and diluted earnings were consequently negative.

Cash flow

Net cash flow from operating activities was positive NOK 10.3 million in the first quarter of 2017 compared to positive NOK 15.8 million in the same period in 2016. Net cash flow from operating activities has been negatively affected by the losses for the periods presented. Annual payments for SaaS support and maintenance are received in advance in the first quarter, and more than offset the negative results for the first quarter both years. During the first quarter both years, the Company also invoiced an annual fee to its largest customer, leading to an increase in trade debtors and deferred revenues. In the fourth quarter of 2016, the Group had positive cash effect from postponement of payments of trade creditors, giving a negative cash effect when these were paid in the first quarter of 2017.

Net cash flow from investing activities was negative NOK 3.4 million in the first quarter of 2017, compared to negative NOK 3.9 million in the same period in 2016. Cash outflows from investing activities were primarily related to capitalization of development expenditures related to the new generation software.

Net cash flow from financing activities was positive NOK 27.3 million in the first quarter of 2017 compared to negative NOK 6.3 million in the same period in 2016. The Company received net proceeds of NOK 58 million related to the IPO in the first quarter of 2017. Shareholders' loans of NOK 20.4 million and the credit facility of NOK 8.6 million were settled, and installment of NOK 1.6 million was paid in the first quarter of 2017.

During the period, cash and cash equivalents increased by NOK 34.4 million. At 31 March 2017, the Group reported cash and cash equivalents of NOK 43.6 million. Of this, NOK 28.8 million was held by the parent company.

Balance sheet

The total balance increased by NOK 49.9 million to NOK 140.7 million at 31 March 2017 compared to 31 December 2016.

Trade debtors increased by NOK 14.7 million, primarily related to an annual invoice to the Company's largest customer.

Current interest-bearing liabilities decreased by NOK 30.6 million as shareholders' loans and bank overdrafts were settled.

Deferred revenues increased by NOK 31.0 million due to invoicing of annual SaaS support and maintenance fees in January, and invoicing of the company's largest customer in March.

Equity increased by NOK 45.8 million during the quarter, and was positive NOK 30.6 million at 31 March 2017. The effect of the loss for the period was offset by the capital increase of net NOK 58 million related to the IPO.

Risks and uncertainties

The company has since 2013 incurred significant expenditure on acquisitions and on developing its new generation software platform, which is to be used to deliver services to most of its customers. The company has been dependent on the shareholders providing equity, shareholders loans and guarantees for the bank borrowings. The Group has a stable customer base that pays annual support and maintenance fees at the beginning of each year. The Group has also won some new PAS contracts during the first quarter of 2017.

In the beginning of January 2017, the company received gross NOK 62.5 million in a share issue in connection with listing of its shares on Oslo Axess. Part of the proceeds have been used to settle short term debt during the first quarter of 2017. After this share issue, the company is of the opinion that it has sufficient funding for its ordinary activities for the current year.

For discussion of other risk factors, please see the annual report for 2016.

Outlook

The company is positive when it comes to the outlook for growth driven by an increase in formal tender processes for national and semi national contracts as well as an increase in demand for SaaS solutions in Europe. Planning, resource and crisis management products also looks promising going forward and there are solid pipelines of formal tender processes particularly in India and the US.

2017 had a promising start as the Company received the purchase orders for the first two coastal states in India. A World Bank funded project is initiated to deliver alerting solutions to a total of nine states going forward. The work to deliver phase two in Singapore has started along with the delivery of a solution to Kiev municipality. The company expects similar projects to come through during 2017.

UMS has expectations to deliver projects to mobile operators through its newly established global partnership with Nokia in the near future.

The Company expects to grow its SaaS business through 2017 and through this to support the strategy of driving solid growth in the Company's recurring revenue.

UMS expect to see a substantial increase in sales of Location Based Solutions to municipalities and industries in Norway built upon the contracts that have already been signed with Oslo, Stavanger, Bergen and Yara. This is also an element that will support growth in recurring revenues for the company.

The Company is already experiencing an increase in responses to national/semi national tenders for Population Alert this year. This is a trend we see will continue through the year.

UMS' strategy is to increase its recurring revenue from annual licenses and traffic. The Company expects 20% growth in recurring revenue at year-end compared to year beginning 2017.

Alternative performance measures

(NON-IFRS FINANCIAL MEASURES)

In this report, the company use some financial measures not defined in IFRS. The company has identified these to be the following:

- EBITDA
- Operating loss (EBIT)
- Net debt

EBITDA and Operating loss (EBIT) are presented as sub-totals in the income statement. The company believes operating loss (EBIT) provides a measure of the operations excluding effects of financing and income taxes. EBITDA excludes depreciation and amortization from EBIT, and the company believes this provides an indication of how the company has performed before the effects of amortization of capitalized development expenditure and amortization of technology related assets from acquisitions.

Net debt	**31 March**		**31 December**
	2017	**2016**	**2016**
Total interest-bearing liabilities [1]	9 400 262	25 147 080	39 984 567
Less cash and cash equivalents	-43 575 776	-12 887 251	-9 180 549
Net debt [1]	**-34 175 513**	**12 259 829**	**30 804 017**

1) Gross and net debt includes the carrying value of the convertible loan. Negative amount is net cash.

The company believes net debt is a figure that provides an indication of the indebtedness of the Group.

Forward looking statements

This report contains statements regarding the future in connection with the Group's growth initiatives, profit figures, outlook, strategies and objectives. In particular, the section "Outlook" contains forward-looking statements regarding the Group's expectations. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual results and developments deviating substantially from what has been expressed or implied in such statements. These factors include the risk factors relating to the Group's activities described in the annual report for 2016.

Oslo, 15 May 2017
Board of Directors

CONDENSED CONSOLIDATED INCOME STATEMENT

		FIRST QUARTER		YEAR
	Note	**2017**	**2016**	**2016**
OPERATING REVENUES				
Sales revenues	2	21 455 596	20 283 507	93 897 735
Total operating revenues		**21 455 596**	**20 283 507**	**93 897 735**
OPERATING EXPENSES				
Cost of materials etc		4 328 576	4 633 415	19 371 861
Personnel costs		14 541 849	12 075 831	46 242 959
Other operating expenses		8 431 347	6 246 690	33 865 007
Total operating expenses excl. Depreciation/amortization		**27 301 773**	**22 955 936**	**99 479 827**
EBITDA		**-5 846 177**	**-2 672 429**	**-5 582 091**
Depreciation/amortization	3	5 634 723	4 322 904	19 605 435
OPERATING PROFIT/LOSS (-) (EBIT)		**-11 480 900**	**-6 995 332**	**-25 187 526**
FINANCIAL INCOME AND EXPENSES				
Other financial income		973 104	62 282	875 733
Other financial expenses		1 387 662	299 789	3 309 592
Total net financial items		**-414 558**	**-237 507**	**-2 433 858**
PROFIT/LOSS (-) BEFORE TAX		-11 895 458	-7 232 839	-27 621 384
Income taxes		660 185	124 109	491 253
PROFIT/LOSS (-) FOR THE PERIOD		-12 555 642	-7 356 948	-28 112 637
Basic and diluted earnings per share	8	-0.07	-0.06	-0.22

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

	FIRST QUARTER		YEAR
	2017	**2016**	**2016**
Profit/loss (-) for the year	**-12 555 642**	**-7 356 948**	**-28 112 637**
Currency translation differences	186 263	-300 814	-380 828
Total items that may be reclassified subsequently to profit or loss	**186 263**	**-300 814**	**-380 828**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-12 369 379**	**-7 657 762**	**-28 493 465**

CONDENSED CONSOLIDATED BALANCE SHEET

		31 MARCH		31 DECEMBER
	Note	2017	2016	2016
NON CURRENT ASSETS				
Capitalized development costs	3	32 496 557	27 649 656	32 291 585
Technology assets	3	16 077 770	24 513 004	18 168 066
Goodwill	3	13 311 184	13 311 184	13 311 184
Operating equipment and fixtures	3	628 637	788 100	681 230
Total fixed and intangible assets		**62 514 147**	**66 261 943**	**64 452 065**
Capitalized fulfillment costs	3	3 200 492	4 267 323	3 467 200
Total other non current assets		**3 200 492**	**4 267 323**	**3 467 200**
TOTAL NON CURRENT ASSETS		**65 714 639**	**70 529 266**	**67 919 264**
CURRENT ASSETS				
Trade debtors		23 538 058	29 164 989	8 826 002
Other receivables and prepayments		7 884 426	5 309 904	4 897 735
Total receivables and prepayments		**31 422 485**	**34 474 893**	**13 723 737**
Bank deposits and cash in hand		43 575 776	12 887 251	9 180 549
TOTAL CURRENT ASSETS		**74 998 261**	**47 362 144**	**22 904 286**
TOTAL ASSETS		**140 712 899**	**117 891 410**	**90 823 550**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		1 909 139	1 273 186	1 409 139
Other paid in capital		178 326 978	111 233 875	120 865 424
Total paid-in capital		**180 236 118**	**112 507 061**	**122 274 564**
Other reserves		-149 649 679	-117 449 560	-137 509 283
TOTAL EQUITY		**30 586 438**	**-4 942 499**	**-15 234 719**
LIABILITIES				
Convertible loan	5	0	13 934 423	0
Debt to credit institutions	5	0	5 000 000	0
Other non-current interest-bearing liabilities	5	37 390	130 562	76 579
Total non current liabilities		**37 390**	**19 064 985**	**76 579**
Trade creditors		7 502 130	8 750 569	13 315 633
Government charges & special taxes		8 499 591	7 849 463	2 386 294
Deferred revenues		67 260 197	62 255 070	36 256 315
Other current liabilities		17 464 281	18 831 728	14 115 461
Current interest-bearing liabilities	5	9 362 873	6 082 095	39 907 988
Total current liabilities		**110 089 071**	**103 768 925**	**105 981 691**
TOTAL LIABILITIES		**110 126 461**	**122 833 910**	**106 058 270**
TOTAL EQUITY AND LIABILITIES		**140 712 899**	**117 891 410**	**90 823 550**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other paid in capital	Translation differences	Retained earnings	Total
Equity as at 31.12.15	**1 273 186**	**111 233 875**	**784 547**	**-110 832 812**	**2 458 796**
Translation difference	0	0	-300 814	0	-300 814
Employee share options	0	0	0	256 467	256 467
Result for the period	0	0	0	-7 356 948	-7 356 948
Equity as at 31.3.16	**1 273 186**	**111 233 875**	**483 733**	**-117 933 293**	**-4 942 499**
Equity as at 31.12.16	**1 409 139**	**120 865 424**	**403 719**	**-137 913 002**	**-15 234 719**
Capital increase	500 000	57 461 554	0	0	57 961 554
Translation difference	0	0	186 263	0	186 263
Employee share options	0	0	0	228 983	228 983
Result for the period	0	0	0	-12 555 642	-12 555 642
Equity as at 31.3.17	**1 909 139**	**178 326 978**	**589 982**	**-150 239 661**	**30 586 438**
Equity as at 31.12.15	**1 273 186**	**111 233 875**	**784 547**	**-110 832 812**	**2 458 796**
Capital increase exercise share options	5 600	426 900	0	0	432 500
Capital increase conversion loan	130 353	9 204 650	0	0	9 335 003
Translation difference	0	0	-380 828	0	-380 828
Employee share options	0	0	0	1 032 447	1 032 447
Result for the period	0	0	0	-28 112 637	-28 112 637
Equity as at 31.12.16	**1 409 139**	**120 865 424**	**403 719**	**-137 913 002**	**-15 234 719**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	FIRST QUARTER		YEAR
Cash flow from operating activities	**2017**	**2016**	**2016**
Result before tax	-11 895 458	-7 232 839	-27 621 384
Paid tax	-660 185	-152 790	-491 253
Depreciation/amortization	5 634 723	4 322 904	19 605 435
Changes in trade debtors	-14 712 056	-17 414 452	2 924 535
Changes in trade creditors	-5 813 503	1 165 059	5 730 124
Changes in other accruals items	37 739 323	35 100 997	524 475
Net cash flow from operating activities	**10 292 843**	**15 788 879**	**671 931**
Cash flow from investing activities			
Purchase of fixed assets	-1 617	-15 688	-107 045
Capitalization of development expenditures	-3 442 102	-3 906 659	-16 672 943
Business combinations	0	0	-822
Net cash flow from investing activities	**-3 443 719**	**-3 922 347**	**-16 780 810**
Cash flow from financing activities			
Change in short term credit facility	-8 626 165	-7 231 948	1 394 217
Installments on interest bearing liabilities	-22 017 431	-19 563	-4 289 818
Increase interest bearing liabilities	0	1 000 000	20 400 000
Increase equity	57 961 554	0	432 500
Net cash flow from financing activities	**27 317 958**	**-6 251 511**	**17 936 899**
Currency effects on cash and cash equivalents	228 144	-156 432	-76 133
Net change in cash and cash equivalents	34 395 227	5 458 589	1 751 887
Cash and cash equivalents at the beginning of the period	9 180 549	7 428 662	7 428 662
Cash and cash equivalents at the end of the period	**43 575 776**	**12 887 251**	**9 180 549**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

General information

Unified Messaging Systems ASA (UMS ASA or the Company) was incorporated on 27 November 1998 and is domiciled in Norway. UMS ASA's registered office address is Innspurten 15, 0663 Oslo, Norway. The company's shares were listed on Oslo Axess on 6 January 2017.

UMS Group (the Group) consists of UMS ASA and its wholly owned subsidiaries UMS ApS, UMS AB, Unified Messaging Systems & Service Pvt. Ltd. (99.8%), UMS Ltd., UMS OY, UMS France SAS, Previstar Inc. and Previstar Pvt. Ltd. The sales subsidiary UMS France was established in the first quarter of 2017.

The Group is a world leader in Population Alert Systems using multiple technologies to leverage existing telecommunication infrastructures to send critical alert messages. The Group is a pioneer in the development of advanced critical messaging systems with around 20 years of professional experience and knowledge from coordinating hand in hand with UNISDR, governments and first responder groups. The Group has more real life implementations than any other entity in the world and has several patented applications that are unique in the industry for their technological and lifesaving capabilities.

These condensed consolidated interim financial statements for the period ending 31 March 2017 were approved by the Board of Directors on 15 May 2017.

These condensed consolidated interim financial statements are presented in NOK. As a result of rounding adjustments, the figures in one or more rows or columns included in the financial statements and notes may not add up to the total of that row or column.

NOTE 1

Statements and accounting policies

These condensed consolidated interim financial statements (interim financial statements) are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as adopted by the EU (IAS 34). The same accounting policies and methods of computation are followed in the interim financial statements as compared with UMS Group's consolidated financial statements for 2016 prepared in accordance with IFRS and interpretations as issued by the International Standards Board and as adopted by the EU. A description of the significant accounting policies applied in preparing these condensed interim financial statements and significant judgements and estimates is included in the mentioned consolidated financial statements for 2016.

The condensed interim financial statements do not include all of the information and disclosures required by International Reporting Standards (IFRS) for a complete set of financial statements, and these condensed interim financial statements should be read in conjunction with the mentioned consolidated financial statements for 2016. These condensed consolidated interim financial statements have not been audited or subject to limited review by the auditor.

NOTE 2

Segments, revenues

The Group has only one segment, consistent with the reporting to the CEO and the Board. The Group has two main products and service areas

- **Population Alert (PAS),** where the company's software system is licensed to, and installed at the customers' premises
- **Group and Service Alert (SaaS - Software as a Service),** where the services are delivered using a common platform.

With the acquisition of the Location Based Alert Services' business from CellVision in 2015, the Group also started delivering location-based services to telecom operators. With the acquisition of Previstar Inc. in 2016, the Group also offers solutions for crises management. Revenues from sale of these products and services are included in PAS.

In the table below, some non-core media-related services, which are being phased out are shown separately.

	FIRST QUARTER		
REVENUES BY PRODUCTS AND SERVICES AREA	2017	2016	% change
Population Alert	7 731 224	6 995 483	11 %
Software as a Service	13 081 228	11 858 113	10 %
Non-core services	643 144	1 429 911	-55 %
Total revenues	**21 455 596**	**20 283 507**	**6 %**

The following customer represented more than 10% of total revenues

	FIRST QUARTER	
	2017	2016
Customer 1	3 718 767	3 813 359
Total	**3 718 767**	**3 813 359**

NOTE 3

Non-current assets

	Equipment & fixtures	Capitalized Development	Technology	Goodwill	Total
Net book value at 01.01.2016	**892 893**	**25 951 885**	**20 996 657**	**13 311 184**	**61 152 618**
Additions in the period	15 688	3 906 659			3 922 347
Business combinations			5 266 068		5 266 068
Depreciation/amortization in the period 1)	97 587	2 208 887	1 749 721		4 056 196
Currency effects	-22 894				-22 894
Net book value as at 31.3.2016	**788 100**	**27 649 656**	**24 513 004**	**13 311 184**	**66 261 943**

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	Equipment & fixtures	Capitalized Development	Technology	Goodwill	Total
Net book value at 31.12.2016	**681 230**	**32 291 585**	**18 168 066**	**13 311 184**	**64 452 065**
Additions in the period	1 617	3 442 102			3 443 719
Depreciation/amortization in the period [1)]	67 145	3 237 130	2 063 740		5 368 015
Currency effects	12 935		-26 557		-13 621
Net book value as at 31.3.2017	**628 637**	**32 496 557**	**16 077 770**	**13 311 184**	**62 514 147**

Capitalized fulfillment costs represent costs incurred in fulfilling contracts with customers that relates to unsatisfied or partially unsatisfied performance obligations. These costs are capitalized and amortized over the expected contract periods.

Capitalized fulfillment costs 1.1.2016	**4 534 031**
Amortization Q1 2016 [1)]	266 708
Capitalized fulfillment costs 31.3.2016	**4 267 323**

Capitalized fulfillment costs 31.12.2016	**3 467 200**
Amortization Q1 2017 [1)]	266 708
Capitalized fulfillment costs 31.3.2017	**3 200 492**

1) Total depreciation and amortization in the income statement is the sum of depreciation/amortization of fixed and intangible assets and amortization of capitalized fulfillment costs.

The company is continuing the development of its new generation software. Capitalization of development expenditure has affected the following line items in the income statement:

	First quarter	
	2017	**2016**
Reduction in personnel costs	1 933 083	1 108 568
Reduction in other operating expenses	1 509 019	2 798 090
Total capitalization	**3 442 102**	**3 906 659**

NOTE 4
Business combinations

There have been no business combinations so far in 2017.

On 18 March 2016, the company acquired all the shares of Previstar Inc. Previstar is headquartered in Virginia, USA, and has a subsidiary in India. Previstar has developed a crisis support system, which is complementary to UMS' technology. The purchase price was USD 100. For practical purposes, profit and loss from Previstar has been consolidated from 1 April 2016. Amounts from the preliminary purchase price allocation at that time has been included in the balance sheet at 31 March 2016. Some amounts in the purchase price allocation were adjusted at 31 December 2016, primarily a reduction to technology assets and net current liabilities by approximately NOK 0.4 million, without changes to the reported amounts for the previous quarters in 2016.

Previstar contributed with revenues of NOK 7.2 million and a loss of NOK 0.9 million for the period 1 April to 31 December 2016. This includes amortization of the technology rights acquired. Had Previstar been acquired, and consolidated with effect from 1 January 2016, it would have contributed with additional revenues of NOK 1.4 million and an additional loss of NOK 1 million. There were no significant transaction costs related to the acquisition.

Previstar had entered into agreements with some of its creditors (employees) that they would receive a part of 12 months' earnings from the acquisition date as full and final settlement of the related liabilities. This was resolved in the first quarter of 2017, with no payments to settle the liabilities. In the consolidated financial statements for UMS, this contributed to a finance income in the first quarter of 2017 of NOK 0.9 million.

See note 8 to the consolidated financial statements for 2016 for further information

NOTE 5
Borrowings

	31 March		31 December
Interest-bearing liabilities	**2017**	**2016**	**2016**
Convertible loan	5 075 292	13 934 423	5 016 000
Bank loan	4 205 486	10 000 000	5 783 728
Bank overdrafts	0	0	8 626 165
Shareholders' loans	0	1 000 000	20 400 000
Other interest-bearing liabilities	119 485	212 657	158 674
Total interest-bearing liabilities	**9 400 262**	**25 147 080**	**39 984 567**
Current interest-bearing liabilities	9 362 873	6 082 095	39 907 988
Non-current interest-bearing liabilities	37 390	19 064 985	76 579
Total interest-bearing liabilities	**9 400 262**	**25 147 080**	**39 984 567**

The bank overdrafts and the shareholders' loans were repaid in January 2017 using parts of the proceeds from the share issue.

In the fourth quarter of 2015, shareholders contributed with a convertible loan of NOK 15 million. The convertible loan has an interest rate of 5% per annum and can be repaid at the discretion of the company. Each lender has the right to convert to shares in November 2016 and November 2017 at a price of NOK 0.75 per share, but cannot require repayment in cash before November 2017, provided the loan terms are complied with. The company has no right to require conversion to shares. The convertible loan is subordinated all other existing debt. At the end of 2016, a part of the loan was converted into 13,035,305 shares. At 31 March 2017, potential remaining shares to be issued if converted in full in November 2017 are 6,964,695 shares.

NOTE 6

Related parties

The Group's related parties are key management personnel and close members of the family of a person and entities that are controlled or jointly controlled by any of these. Key management personnel are defined as the Board of Directors and the CEO, CFO & VP and CTO. The Chairman of the Board is also a related party by being the largest owner. The company also has a minor joint venture company.

See note 15 to the consolidated financial statements for 2016 for further information on loans and guarantees provided by Board members and shareholders. In January 2017, the NOK 20.4 million shareholders' loans were repaid by the company, and underwriting fees were paid.

There were no other significant transactions with related parties in the first quarter of 2017.

NOTE 7

Other information

The Company's share capital at 31 March 2017 was NOK 1,909,139 divided into 190,913,938 shares, each with a par value of NOK 0.01. At 6 January 2017, 50 million shares were issued at NOK 1.25 per share, and the company was listed on Oslo Axess. The company received gross NOK 62.5 million, and equity was increased by net NOK 58 million after deducting incremental costs related to the share issue.

THE 10 LARGEST SHAREHOLDERS AT 31 MARCH 2017:

Name	Shares	Ownership Interest	Position in UMS ASA
FOUGNER INVEST AS	47 050 013	24.64 %	Chairman
KRISTIANRO AS	19 588 734	10.26 %	Board member
VERDIPAPIRFONDET ALFRED BERG AKTIV	8 350 000	4.37 %	
BERNT AS	8 122 480	4.25 %	
GEVERAN TRADING CO LTD	7 068 396	3.70 %	
SINCO AS	6 449 289	3.38 %	
JAG AS	4 143 871	2.17 %	
CAMACA AS	4 084 465	2.14 %	
THABO ENERGY AS	4 000 000	2.10 %	
TRELLEVIKA INVEST AS	3 176 024	1.66 %	Chairman
Subtotal	**112 033 272**	**58.68 %**	
Others	**78 880 666**	**41.32 %**	
Total	**190 913 938**	**100.00 %**	

200,000 share options were forfeited in the first quarter of 2017, leaving 3,340,000 share options outstanding at 31 March 2017, with exercise price of 0.75 per share.

At 31 December 2016, the Group reported negative equity. Subsequent to the share issue in January 2017 and the loss for the first quarter of 2017, equity of the UMS Group was NOK 30.6 million, and the net cash position was NOK 34.2 million. The Group reported a high amount of current liabilities at 31 March 2017. However, this included NOK 62.5 million deferred revenues, which is not scheduled to be repaid in cash but are related to future fulfilment of performance obligations. The company is of the opinion that it has sufficient funding for its ordinary activities for the current year.

NOTE 8

Earnings per share

	First quarter		Year
Ordinary	**2017**	**2016**	**2016e**
Loss after tax attributable to owners of the parent company	-12 555 642	-7 356 948	-28 112 637
Weighted average number of shares (excl. treasury shares)	187 580 605	127 318 633	129 003 546
Earnings per share (NOK)	-0.07	-0.06	-0.22
Total revenues		**20 283 507**	**6 %**

In 2017 and 2016, the company had employee share options outstanding. For the periods that basic earnings per share is negative, share options has an anti-dilutive effect. The company issued a convertible loan in November 2015. The convertible loan also has an anti-dilutive effect. Consequently, basic and diluted earnings per share are the same.

NOTE 9

Subsequent events

After the reporting period ended on 31 March 2017, Previstar, a subsidiary of UMS ASA, has been awarded a strategically important contract to provide its web based Emergency Management Planning Solution, CEMPlanner, to agencies of the Commonwealth of Virginia. This contract is strategically important to UMS as more states in the United States are looking at similar solutions.

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