Location Innovation Transformation

Annual Report 2012

THE QUEEN'S AWARDS FOR ENTERPRISE: INNOVATION 2012

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2012

Ubisense

Ubisense

The mission is clear:

to be the leading location solutions provider delivering real-time visibility and control for global industrial companies.

Vision

In 2017, Ubisense will be the market leader in location-based solutions by building the most effective team and technology in the world to provide outstanding location products and solutions.

Real-Time Location Systems

Ubisense location solutions offer unparalleled scalability to cover complex global operations and a level of precision that can detect the subtlest nuances in industrial environments where objects are constantly on the move. With a proven reliability, our solutions are used in critical commercial operations and cutting edge research programs around the globe.

More on Real-Time Location Systems p06

Geospatial Systems

The world's largest and most successful utility and telecommunications companies partner with Ubisense for Geospatial Systems that drive efficient and effective operations. Ubisense customers lead their industries in safety, reliability and customer satisfaction. Our solutions helped get them where they are and enable them to maintain the highest operational standards, every day.

More on Geospatial Systems p10

Highlights

"2012 was a year of significant strategic progress for the Group"

Richard Green
Chief Executive Officer

Financial highlights

- Group revenue increased by 2.1% to £24.3 million (FY 2011: £23.8 million)
- RTLS revenue in the manufacturing sector grew by 57.0%
- Overall RTLS revenues grew by 10.3%
- Geospatial revenues grew 34.7%, made up of 20.4% organic and 14.3% inorganic, excluding the impact of a large European telecom customer which undertook a restructuring. Overall Geospatial revenues reduced by 2.5%
- Improved gross margin of 39.5% (FY 2011: 35.6%)
- Managed services (including M&S contracts) increased 22.3% and represents 25.6% of total revenue (FY 2011: 21.4%)
- Adjusted EBITDA* of £1.2 million (FY 2011: £1.4 million)
- Net cash of £2.7 million following increased investment in product suite

Operational highlights

- Major new strategic RTLS wins with AGCO, Astrium, BAE and Hyundai. Over a dozen new installations at customers such as Renault, Smart and John Deere
- Extended installations with our existing RTLS customers including Airbus, Aston Martin, BMW, Continental, Cummins, Daimler and Eurocopter
- New Geospatial wins with Cogeco, IGC, Sovernet, Cambridge Water, SESW, American Electric Power and DREWAG/ENSO
- New strategic partnerships with Daifuku and Geoplan
- Increased R&D spending to develop industry solutions including Ubisense's flagship end-to-end manufacturing solution Smart Factory System
- Double Queen's Award winner for Innovation and International Trade

£24.3m
Revenue

39.5%
Gross margin

£1.2m
Adjusted EBITDA

Winner
Double Queen's Award
for innovation and International Trade

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

The objective was set:
to create the very best Location Solutions available.

I am pleased to report Ubisense's results, for the year ended 31 December 2012. This has been a crucial year for the Group, where we have seen significant developments within both of our operating divisions.

Andy Hopper
Chairman

Chairman's statement

We will continue to pursue opportunities for growth both organically and through acquisitions that align with our strategic objectives

Introduction

I am pleased to report Ubisense's second full year of results as a listed company, for the year ended 31 December 2012. This has been a crucial year for the Group, where we have seen significant developments within both of our operating divisions.

Overview

Group revenue increased by 2.1% to £24.3 million and we achieved an Adjusted EBITDA of £1.2 million. Gross profit increased to £9.6 million, representing an improvement in gross margin to 39.5%. The Group has a robust balance sheet with Shareholder Funds of £18.9 million, including net cash of £2.7 million.

We have continued the strong momentum this year in both our RTLS and Geospatial divisions, through the strengthening of key customer relationships, acquisition of new customers, improved market reach and our approach to product management. We have ensured that our resources are fully focused on delivering products for markets where we add the most value.

Our RTLS division has experienced considerable growth, through major new strategic client wins, as the use of location driven manufacturing solutions is becoming increasingly widespread through many industries. We remain confident that the Company can capitalise on the considerable opportunities we see in the high value manufacturing sector and this will continue to drive our growth.

In our Geospatial division, we have also delivered excellent progress and further market traction. Our Geospatial product offering continues to gain acceptance in the telecoms and utilities markets, extending our reputation with customers that value reliability and exceptional service.

Current trading and outlook

In the period since the year end, current trading has been in line with the Board's expectations. Ubisense enters 2013 with increasing momentum in the business and we intend to capitalise on the opportunities ahead. We will continue to pursue opportunities for growth both organically and through acquisitions that align with our strategic objectives, enhance our offering and deliver value for our shareholders.

Although the world economic outlook remains uncertain, our ability to provide innovative solutions for major customers in manufacturing markets remains strong and we begin 2013 with a robust order book and pipeline.

Awards

The Group has again received a number of awards during the year, including two prestigious Queen's Awards for the first time for its outstanding and sustained achievement in developing innovative products and solutions, and applying them to create significant international commercial success.

Conclusion

On behalf of the Board, I would like to thank our customers, partners and employees for their support in making 2012 such a strong year for the Ubisense Group. I look ahead with confidence for the 2013 financial year.

Andy Hopper
Chairman

18th March 2013

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Prestigious Awards

Ubisense management team accepting the Queen's Awards from The Lord Lieutenant of Cambridgeshire, Hugh Duberly CBE

The result is unprecedented:
location driven solutions providing a new level of visibility and control over assets and processes.

Ubisense focuses on global industrial companies in manufacturing, utilities and telecommunications.

Ubisense offers two location driven product lines:

RTLS (Real-Time Location Systems)

Geospatial Systems

Ubisense location solutions provide significant efficiency and quality benefits for our 500 customers world-wide by providing unprecedented visibility and control over their assets and processes.

Ubisense RTLS based solutions are used by manufacturing customers to continuously identify, locate, track and control assets throughout their facilities both inside and outside of buildings. Our Geospatial solutions are used by the world's most successful telecommunications and utility companies to drive efficient and effective operations based on their network assets. Ubisense customers include: BMW, Duke Energy, Aston Martin, Caterpillar, Airbus, Daimler, Hyundai, AGCO and Cox Communications.

Ubisense is headquartered in Cambridge, UK, with offices in the USA, Canada, France and Germany.

Ubisense Business Model

Intellectual Property | Global Reach | Strong Technical Competencies

Automotive Manufacturing	Utilities
Discrete Manufacturing	Telecoms
New product introduction Smart Factory System	Increased software content Geospatial managed services

Large blue chip customers with long-term order book

Systems implementation

Managed services

The solutions are unique: our RTLS delivers the absolute best in accuracy and reliability.

Products

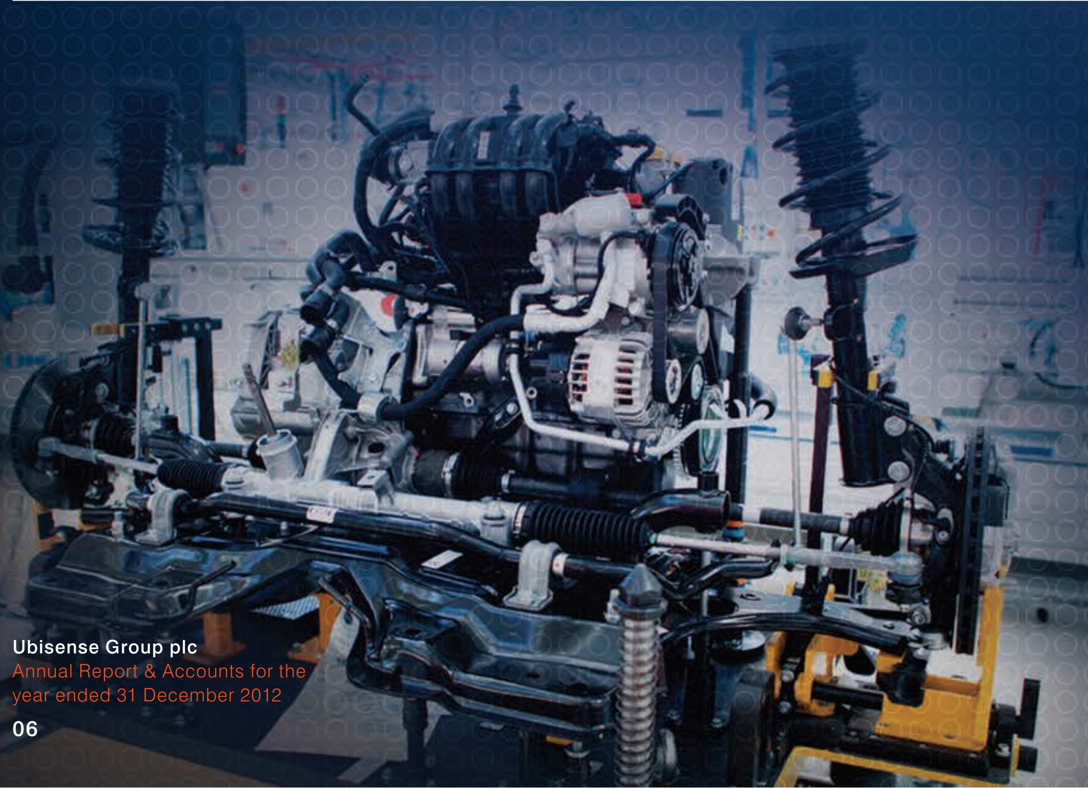
Real-Time Location Systems

Mission

Our mission is to improve production processes by leveraging location to provide real-time, highly accurate visibility and control.

Vision

Our vision is to be the market leader in real-time location-based lean management for the global manufacturing industry. We will do this by building the most effective team in the world to provide outstanding products and solutions.



Products

Real-Time Location Systems

A new initiative for lean manufacturing

Ubisense Smart Factory System

Benefits for manufacturers

- **Measurable cost reduction**
  Tasks which do not add value are eliminated
- **Reliable quality control**
  Critical processes are driven by real-time accurate data
- **Continuous improvement**
  Movement and interactions of assets are completely visualised and documented
- **Sustainable process reliability**
  Wireless tools and devices are controlled using their location

Manufacturing organisations are always looking for ways to improve their production processes, reduce costs and improve quality.

The current industry focus is on developing true "Lean Manufacturing" processes. By tracking the precise location of a production tool and the product it is supposed to be working on, Ubisense dramatically reduces the error rates that result from the wrong tool (eg an industrial nut tightener) being used on the wrong product (eg a MINI Cooper at BMW's plant in Oxford).

In a similar vein, by tracking a car as it comes down the production line, the same tools can be pre-programmed for the particular vehicle before they reach a station, eliminating the need to manually scan the car to identify it. This can save as much as 6 seconds per tool operation and with up to 150 tools being used to assemble 1,000 cars per day delivers huge productivity benefits and a very rapid payback.

The Ubisense Smart Factory System achieves this feat by using "active" tags that emit a radio signal which is located to an accuracy of 30 cm by sensors installed in the factory. The tags can be mounted on any manufacturing asset and therefore the system is able to identify, locate, track and control the movement of production material, orders, work in progress and operating equipment in real-time. It is designed to be integrated with existing ERP, MES, shop floor and other identification, control and monitoring systems.

The software is organised into modules which may be combined flexibly to address all areas of the factory operation including inbound logistics, material handling, tool and equipment management, assembly control, inspection & rework, yard management and process improvement. The system may be introduced into one specific area and expanded step-by-step to address an increasing number of process improvement requirements.

The products are designed and built in the UK and the revenues derived from sales of products and services into the manufacturing sector are projected to grow significantly over the next few years since the adoption of the products has only occurred so far in a few of the thousands of manufacturing plants around the world.

The benefits are transformational:

revolutionising the management of assets and processes, fixed or mobile.

Smart Factory System

Real-Time Location Systems

BMW/Brilliance – Tiexi, China

The BMW/Brilliance Challenge

When BMW and Brilliance were building a new plant in Tiexi, China, they were looking for a flexible identification and tracking system that would identify vehicles at key workstations where parts and/or operations vary due to a vehicle's specific options. The tracking system was to be installed along the assembly line and in the vehicle finishing area. One key requirement was that the solution must be easy to extend if production volume increases.

Ubisense Solution: Smart Factory System

Installed area: 12 line segments | Sensors: 150 | Tags: 450 | In production since: 2011

By precisely tracking Ubisense RTLS tags on vehicles, the Ubisense Smart Factory System provides BMW with real-time information to efficiently manage vehicle variability through:

- Enabled a reliable VIN identification process in the production line, preventing line stoppages due to manual identification errors; and
- Control of automated robots, ensuring the correct parts are selected for the VIN in the station.

Benefits Realised

Using Ubisense RTLS technology as an identification and tracking system has:

- Enables a reliable VIN identification process in the production process, preventing line stoppages due to manual identification; and
- Reduced effort and complexity to modify trigger points through software-based configuration.

Due to the success and accuracy of the tracking system, it is now being enhanced to be used as a full tool control solution with 300 additional sensors being added.

Brilliance Auto
华 晨 汽 车

The solutions are unique:

Ubisense products help our customers realise the full potential of their assets and enterprise networks.

Products

Geospatial Systems

Mission

Our mission is to bring focussed geospatial solutions to the utility and telecoms market which will transform the way our customers work and enable them to meet the challenges brought by the roll out of the smart grid, renewable technologies, 4G and Fibre To The Home (FTTH).

Vision

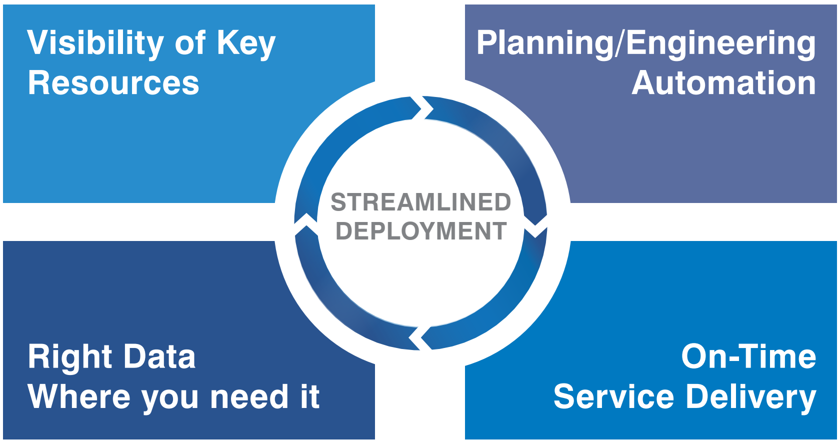
Our vision is to be the market leader for the next generation of geospatial products that allow our customers to leverage their investment in enterprise data, supporting the planning, design, visualisation and management of their networks and assets. We will do this by investing in new products and building the most trusted and effective team in the world in this field. We will move GIS from the engineering departments to the heart of the business, providing decision support for the enterprise.

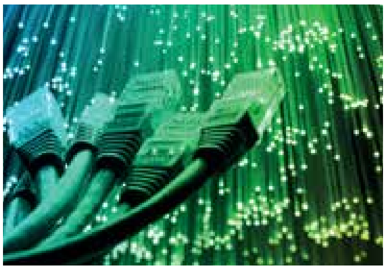
Products

Geospatial Systems

The right solutions, when you need them, where you need them.

Ubisense geospatial solutions provide:





Ubisense's geospatial customers have historically purchased GE Smallworld software products, and engaged Ubisense's teams of software consultants to implement, extend and manage their systems. Ubisense's core strength derives from the intimate knowledge of its customers, their businesses and key enterprise technologies that our staff has built up through successful project delivery.

Major changes in regulation such as the requirement to install smart meters, in demographics (the individuals within customers are retiring to make way for a younger generation) and in technology such as cloud computing, 4G and FTTH are creating dramatic new opportunities for the company to offer its own products rather than purely integrating third party products. As a result the company has developed a new suite of products, including:

myWorld, An intuitive and powerful product, delivering spatial information to desktop and mobile users throughout your enterprise. Smallworld data, work orders, customer information – anything from your enterprise systems – is presented in a simple Google Maps style view that is easy for everyone to understand and use, providing decision support at the heart of operations.

VeroTrack, which takes the paperwork out of field work by tracking and mapping gas leaks using digital mapping GIS data in the field. By using state-of the-art GPS technology, it simplifies gas leak survey documentation and works with major gas detectors to automatically capture gas concentrations during surveys.

netSolutions, an integrated range of products for telecoms operators, enabling service assignment, capacity management, wireless engineering and fibre planning. This product suite already forms a key part of the solutions for over forty operators around the world. The FTTH netPlanning tool underpins the rollout of ultra-high bandwidth next generation network.

Our solutions take advantage of the dramatic technology changes that are already underway in the consumer market including cloud technology, smart devices and the web mapping products supplied by Google and others.

The benefits are transformational:

streamlined processes, support for new technologies, reduced costs and a greatly improved return on investment.

Products – Case study

Geospatial Systems

Cox Communications

Third largest Multiple System Operator (MSO) in the United States. Approximately 6 million cable TV, internet, and phone subscribers.

The Cox Communications Challenge

Cox Communications use Ubisense netSolutions products to plan, operate and document their telecoms network. Telecoms networks are evolving rapidly, and Cox's geospatial solutions form a key part of their ability to react, change and deliver service.

Ubisense Managed Services

Ubisense began working with Cox Communications in 2005 on multiple projects, including their geospatial network management upgrade. The Ubisense team's expertise ensures that Cox's system performance and reliability meets operational metrics and that its features and capabilities evolve and improve with the ever-changing needs of the business.

Benefits Realised

Ubisense works with Cox using agile methodologies providing regular updates and interactions to the Cox team who are involved in every step of the entire process, providing feedback which ultimately delivers the best results to the system users.

This results in more focused system development, with streamlined processes, and a greatly improved return on the investment and reduced network management costs. The partnership continues into its eighth year with Ubisense providing consulting, application development, user support and administration support services to the Cox team.

The performance in 2012 was positive:
we are now installed in 8 out of the top 15 auto manufacturers.

Ubisense performed well over the year through challenging economic conditions, delivering growth in revenue and gross margin and increasing investment in our product offerings.

Richard Green
Chief Executive Officer

We remain committed to developing strong partnerships that deliver differentiated value propositions.

This was reflected in the growing awareness and deployment of our leading location solutions to an increasing number of top tier automotive manufacturers providing good momentum on our growth strategy.

Our value proposition is one of our main growth drivers as customers are seeing clear returns on investment from increased operational efficiencies leading to reduced operating costs in their manufacturing operations.

Customer Momentum

The market opportunity for Ubisense is ever present. Within RTLS, we have continued to grow the business by extending the model in our priority G7 markets, with a particular focus on high value manufacturing where we delivered year-on-year growth in revenues of 57.0%. Our strategy in manufacturing has been to enter the customer with a single application and then extend the range of applications as they increasingly look for an end-to-end location solution.

We have now been installed in 8 out of the top 15 auto manufacturers and we continue to penetrate the global automotive market with new pilot installations at more plants in North America, Europe and further adoptions in South Korea.

During the year, we saw new RTLS contracts including major strategic wins at AGCO, Astrium, BAE and Hyundai. In addition we established over a dozen new installations at customers such as Renault, Smart and John Deere and extended our installations at existing customers including Airbus, Aston Martin, BMW, Continental, Cummins, Daimler and Eurocopter.

In the Geospatial division we are pleased to report new customer wins with Cogeco, IGC, Sovernet, Cambridge Water, SESW, American Electric Power and DREWAG/ENSO.

New contract wins and managed services contract renewals with major telecoms and utility companies including Exelon, HLBG and Swisscom have continued to build on the growth of the Geospatial division and are consistent with our plans for organic growth in both established and emerging markets.

Acquisitions

The successful acquisitions of Realworld OO Systems Ltd and Integrated Mapping Solutions Inc in 2011 contributed £2.1 million to revenues in 2012. These businesses are now fully integrated into our existing business and have consolidated and extended our customer base. Research and development and marketing activities have been repatriated and consolidated back into the UK, giving rise to a reorganisation cost of £0.4 million.

Strategic Partnerships

Substantial progress was achieved with our strategic partner Atlas Copco, now with more than 40 installations deployed. We have also entered into new partnerships with the Daifuku Corporation and Geoplan in Japan that are helping with deployment of our RTLS products into the Asian market.

Our partnership with industrial automation experts, ATS Global, also saw significant progress with a maiden installation with the UK's largest manufacturer. This complementary partnership enables Ubisense to leverage ATS Global's unrivalled expertise in Manufacturing Execution Systems (MES) whilst helping ATS 'location enable' its solutions to afford manufacturing customers a more compelling combined offering.

We remain committed to developing strong partnerships that deliver differentiated value propositions which are beneficial for both our customers and our partners.

Products

We have continued to invest in research and development in both divisions resulting in a consolidation of current products into more market focused application suites such as our flagship, end-to-end manufacturing solution, the Smart Factory System and our netSolutions product for the telecommunications market. Feedback has continued to be very positive and we look forward to introducing these new application suites in 2013 and extending our order book.

Conclusion

By working in close co-operation with our customers we have established a strong platform for growth and are in a good position to build on our successes. We look forward to the future with confidence.

Richard Green
Chief Executive Officer

18th March 2013

Strategic Partners

The results are encouraging: revenue and margins both increased.

Ubisense enters 2013 with increasing momentum in the business. We are well placed for growth.

Gordon Campbell
Chief Financial Officer

The Group has a robust balance sheet with Shareholder Funds of £18.9 million including net cash of £2.7 million and no outstanding debt.

Revenue and Gross Margin

In the year ended 31 December 2012, the Group generated revenue of £24.3 million (2011: £23.8 million).

Gross Profit increased to £9.6 million (2011: £8.5 million), representing an improvement in Gross Margin to 39.5% (2011: 35.6%).

RTLS

RTLS's revenues increased by 10.3% to £9.5 million (2011: £8.7 million). The gross margins on RTLS revenue improved to 57.3% (2011: 53.6%) as a result of a higher proportion of proprietary hardware and software revenue within the mix.

Adjusted EBITDA was up significantly at £1.5 million (2011: £0.7 million). The RTLS division continued to invest in the Atlas Copco relationship who importantly accelerated the support of their pilot programme, which is now running across many organisations including five of the largest car manufacturers in the world. Headcount increases in our sales and delivery teams, as well as our R&D team to expand our range of RTLS applications, resulted in headcount averaging 70 for the year (2011: 60).

Geospatial

Geospatial revenues reduced by 2.5% to £14.8 million (2011: £15.1 million). However, the underlying business grew by 34.7%, made up of 20.4% organic and 14.3% inorganic. This excludes the impact of a large European telecom customer which undertook a restructuring throughout the year resulting in a drop in revenues of £3.6 million from a peak in 2011 – we believe that business with this customer has returned to more consistent levels now. The 2011 acquisitions in Geospatial performed in line with expectations with revenues of £2.1 million up from £0.7 million in the prior year.

Gross margins improved to 28.0% (2011: 25.4%) as a result of some higher margin product sales and a reduction in the number of contractors being used in the business.

Adjusted EBITDA was stable at £3.0 million (2011: £3.1 million) with the increased gross profit being offset by increased R&D and pre-sales expense. Total Geospatial headcount averaged 94 for the year (2011: 64), 24 of this increase being a result of adding the staff from the two acquisitions.

Central

Central corporate costs were £3.4 million (2011: £2.4 million). The underlying increase in central corporate costs was due to an increase in headcount averaging at 20 for the year (2011: 14), marketing, foreign exchange losses and costs relating to being a listed company for a full year compared to six months only in 2011 following the IPO in June 2011.

Group operating profit and profit after tax

Adjusted EBITDA for the Group was £1.2 million (2011: £1.4 million). The operating loss for the year was £0.8 million (2011: profit of £0.3 million) including amortisation and depreciation charges of £1.4 million (2011: £0.8 million) and non-recurring reorganisation costs of £0.4 million (2011: non-recurring listing and acquisition costs of £0.4 million).

+10.3%
RTLS revenue growth

+34.7%
Underlying Geospatial revenue growth

£3.2 million
Investment in R&D

Amortisation on acquired intangibles of £0.3 million (2011: £0.1 million) increased as a result of there being a full year charge in 2012 on the intangibles from the acquisitions in the second half of 2011. Amortisation of other intangibles of £1.0 million (2011: £0.5 million) was higher as development costs capitalised increased. Total R&D spend before capitalisation and amortisation was £3.2 million (2011: £2.2 million).

Net interest receivable for the period was £38,000 (2011: £148,000 expense) with interest expense being virtually eliminated following the conversion of the Convertible Loans and repayment of the bank loan at the time of the IPO in June 2011.

Reported loss before tax was £0.7 million (2011: £0.1 million profit).

The Group has a net tax credit of £90,000, almost entirely comprising of a cash R&D tax credit of £203,000 partially offset by non-cash deferred tax on capitalised development costs and acquired intangible assets.

Earnings per share and dividend

Adjusted diluted earnings per share was 0.5 pence (2011: 2.7 pence). Reported basic and diluted loss per share was 2.8 pence (2011: earnings of 0.2 pence).

The Board do not feel it appropriate at this time to pay a dividend. The cash held on the balance sheet will be used to fund growth, R&D and potential acquisitions in line with the strategy set out when listing on AIM in June 2011.

Balance sheet and cash

The Group has a robust balance sheet with Shareholder Funds at 31 December 2012 of £18.9 million (2011: £19.2 million), including net cash of £2.7 million (2011: £6.0 million) and no outstanding debt. In November 2012, the Group negotiated a £2 million bank facility to provide additional future working capital capacity – this facility has yet to be drawn down.

The main components to the cash movements in 2012 include a reduced cash outflow from operating activities of £0.8 million (2011: £2.3 million outflow), capital investment in product development and plant and equipment of £2.3 million (2011: £1.4 million) and consideration paid of £0.4 million (2011: £1.6 million) in respect of the Realworld acquisition made in October 2011.

Capital structure

The issued share capital at 31 December 2012 was 21,919,744 (December 2011: 21,657,698) ordinary shares of £0.02 each. The increase of 262,046 shares related to 154,937 employee share option exercises and 107,109 warrant exercises. The total number of unexercised share options at 31 December 2012 was 2,057,720. There are no unexercised warrants at 31 December 2012. The issued share capital at 18 March 2013 is 21,925,786 shares.

Current trading and outlook

Ubisense enters 2013 with increasing momentum. We are well placed for growth in 2013, with the Geospatial acquisitions now fully integrated into our business and increased penetration of RTLS in the manufacturing sector.

Gordon Campbell
Chief Financial Officer

18th March 2013

£2.7 million
Cash

Atlas Copco

Our partners location system products

The outlook is exciting: Ubisense enters 2013 with increasing momentum.

Board of Directors

Professor Andrew Hopper CBE
Non-executive Chairman

Age: 59

Date of Board appointment:
November 2005

Committees:
A – (Observer) **R** – (Observer) **N**

Andy is one of the foremost leaders in the technology industry having co-founded twelve successful companies, including Acorn Computers Limited acquired by Olivetti; Virata, Inc. listed on NASDAQ; Adaptive Broadband Limited, acquired by California Microwave, Inc., Cambridge Broadband Limited, Level 5 Networks Limited and RealVNC Limited. Andy is Professor of Computer Technology at the University of Cambridge and is currently Head of the University of Cambridge Computer Laboratory and a member of the University's Council. Andy has worked on location systems for over 20 years. He was elected as a Fellow of the Royal Society in 2006 and the Royal Academy of Engineering in 1996. Andy was made a CBE in 2007 for services to the computer industry.

Richard Green
Chief Executive Officer

Age: 54

Date of Board appointment:
November 2005

Richard initially trained as a mechanical engineer and has over twenty-five years of experience in the software industry. Having established Smallworld as one of the leading geographic information system companies serving utility and telecoms companies in Europe and the US, the company subsequently listed on NASDAQ in 1996 and was acquired by GE in 2000 for $214 million. Richard was Ernst & Young UK's Science and Technology Entrepreneur of the Year in 2010. Richard is a Fellow of the Institute of Mechanical Engineers and sits on the Institute of Mechanical Engineers Manufacturing Industries Board.

He is also Entrepreneur in Residence at Judge Business School, Cambridge and a Fellow of the Royal Society of Arts.

Gordon Campbell
Chief Financial Officer

Age: 45

Date of Board appointment:
September 2010

Gordon is a Fellow of the Institute of Chartered Accountants in England & Wales. After qualifying with Deloitte in 1995 he moved into the technology industry with Smallworld, where he was part of the team involved in the NASDAQ listing. After leaving Smallworld in 2000 he joined UbiNetics, a 3G telecoms technology company and spin out from PA Consulting, where he was involved in private fundraisings of £65 million. Gordon joined Ten Sails LLP in 2004 which merged into Ubisense in 2005 and he became CFO in 2009 and joined the board in 2010. He has an M.A. in Engineering from the University of Cambridge. Gordon was included in the Hot 20 FDs in TMT in 2012.

Peter Harverson
Non-executive Director

Age: 66

Date of Board appointment:
November 2005

Committees:
R – (Chair) **N**

Peter has held a number of senior international sales and marketing roles in the IT industry. These included Regional Director, Intel Corporation and Vice President Europe, Cadence Design Systems. In 1995, he joined Sun Microsystems where he was responsible for the development of the company's European Corporate Accounts programme. More latterly, he became Director of Services Sales – EMEA with a charter to develop new areas of business, including professional services. Peter retired from Sun Microsystems in December 2005. Most recently he was Non-executive Chairman of Aspex Semiconductors Limited, sold to Ericsson AB in July 2012. Currently, Peter is a non-executive director of Brady plc, CRFS Limited, and Chairman of eoSemi Limited. Peter is also an adviser to Cambridge IP Limited.

Board Committee Membership

A – Audit Committee **R** – Remuneration Committee **N** – Nominations Committee

J Keith Lomas
Non-executive Director

Age: 42

Date of Board appointment: December 2008

Committees:
A R

Keith has more than twenty years senior management experience in both small and medium sized entrepreneurial and extensive multinational companies. Keith was appointed Managing Director of CLPL in 1996 and, after leading the successful acquisition of UltraVision International in 2003, Keith was appointed as President and CEO of the UltraVision CLPL group. The combined group is one of the largest independent manufacturers and suppliers of contact lenses in Europe. Prior to his involvement in the contact lens world, Keith was an investment banker at S.G. Warburg, Kleinwort Benson and Daiwa Europe. Keith is an active investor in other technology start-up companies. Keith accepted the Queen's Award for Enterprise: Innovation 2006 and 2010 on behalf of UltraVision CLPL.

Dr Richard Newell
Non-executive Director

Age: 70

Date of Board appointment: December 2005

Committees:
A N

Dick has spent over 35 years in the software industry in Computer aided design (CAD) and Geographic Information Systems (GIS). He co-founded his first company, Cambridge Interactive Systems Limited (CIS) in 1977. CIS was part of what became known as "The Cambridge Phenomenon". Dick was a co-founder of Smallworld in 1988. Dick was Chairman of both CIS and Smallworld. He was the original project manager of PDMS, a core product of AVEVA Group plc and is also a Non-executive Director of UltraVision CLPL.

Dr Robert Sansom
Non-executive Director

Age: 53

Date of Board appointment: December 2005

Committees:
R N – (Chair)

An active angel investor and mentor to start-ups, Robert is founder of the Cambridge Angels, a group of seasoned technology and bio-technology entrepreneurs who invest in and mentor technology start-ups in the Cambridge area. Previously, Robert was co-founder, CTO and Director of FORE Systems, Inc, a leading provider of networking equipment. FORE was listed on NASDAQ in 1994 and subsequently acquired by Marconi for $4.5 billion in 1999. Additionally, Robert served as the Chief Technology Officer at Marconi in 1999. Robert is a member of the board of Directors of Cambridge Communications Systems Limited, CRFS Limited and Netronome Systems, Inc. He was elected as a Fellow of the Royal Academy of Engineering in 2010.

Paul Taylor
Non-executive Director

Age: 48

Date of Board appointment: February 2011

Committees:
A – (Chair) **R**

Paul is a Fellow of the Association of Chartered Certified Accountants. Paul joined AVEVA Group Plc in 1989 and was heavily involved in the flotation process and was responsible for UK accounting and for the development of AVEVA's overseas subsidiaries including adherence to group standards. Between 1998 and 2001, Paul was also UK Director of Human Resources and was appointed to the position of Finance Director and Company Secretary of AVEVA Group plc on 1st March 2001. Before joining AVEVA, Paul trained within the accountancy profession before moving to Philips Telecommunications (UK) where he was responsible for the management accounts of its Public Sectors division. Paul was a recipient of the FTSE250 Finance Director of the Year award and is also a Non-executive Director of Anite plc, Escher Group Holdings plc and, from 1st April 2012, Digital Barriers plc.

Directors' report

The Directors present their annual report on the affairs of the Group together with the audited financial statements for the year to 31st December 2012.

Principal activities and future developments

Ubisense is a world leader in providing end to end (hardware, software and services) real-time location solutions to companies allowing them to track people and assets with a high degree of accuracy. The Group operates in two divisions: Real-Time Location Systems ("RTLS") and Geospatial.

The RTLS division targets high-value manufacturing businesses that use Ubisense's proprietary technology to track assets, such as tools, people and vehicles, in factories and other indoor environments with accuracy that satellite-based systems cannot currently achieve. Ubisense's ultra-wideband ("UWB") based RTLS is currently one of the few systems that delivers both reliable accuracy and the ability to track resources in three dimensions in real time.

The Geospatial division uses Ubisense's expertise in location solutions to deliver applications, software and other solutions primarily in the utilities and telecom sectors. The Geospatial division focuses on the detailed mapping of network assets and provides, on behalf of its customers, network management planning and design, and has particular expertise in GE Smallworld software and solutions.

Further future developments are addressed in the Chairman's Review, Chief Executive Officers' Review and Financial Review on pages 2 to 18.

Review of business

Revenue for the Group was £24.3m (2011: £23.8m). The Group's loss after tax was £0.64 million (2011: profit of £0.03 million). Further analysis of the year's results, as well as the outlook for the coming year, is set out in the Chairman's Review, Chief Executive Officers' Review and Financial Review on pages 2 to 18.

Key performance indicators

The primary financial key performance indicator for the Group is adjusted EBITDA, on which it reports monthly. Adjusted EBITDA for the year was £1.2 million (2011: £1.4 million). The Group also monitors the order pipeline and cash balances. At the close of the year the outstanding orders totalled 47% of annual sales (2011: 50%). The closing net cash balance for the Group was £2.7 million (2011: £6.0 million). Having regularly reviewed the KPIs in respect of changes within periods and changes between reporting periods the Directors believe that the Group has made satisfactory progress against the KPIs, especially the order pipeline, compared to budget.

Financial instruments

Information on both the Group's financial risk management objectives and the Group's policies on exposure to relevant risks in respect of financial instruments are set out in note 27 of the consolidated financial statements.

Principal risks and uncertainties

The Group faces competitive and strategic risks that are inherent in a rapidly growing emerging market. The Board of the Company and the Global Management Team review future strategy and risks to the business regularly. Where possible, processes are in place to monitor and mitigate the identified risks.

Financial and trading risks are discussed in Note 27 of the consolidated financial statements. The key business risks affecting the Group are set out below:

Technological risks

The Group operates in an industry where competitive advantage is heavily dependent on technology. It is possible that technological development may reduce the importance of the Group's function in the market or render the patents on which it relies redundant. For instance, the Group's real time location systems rely on ultra-wideband radio signals to operate. There is no guarantee that technological advances will not render systems based on ultra-wideband radio obsolete. The Group's existing reference designs may become obsolete or may be superseded by new technologies or changes in customer requirements. The technology used in the Group's products is still evolving and is highly complex and may change rapidly.

In order to mitigate this risk, Ubisense invests in a range of research and development activities to maintain its competitive advantage and participates in industry and research forums in order to keep abreast of technological advances.

Reliance on third parties, including manufacturers

The Group relies on third party equipment manufacturers in the completion of its products and, therefore, does not always have complete control over the equipment and materials it requires to comply with its obligations under customer contracts. To the extent that the Group cannot acquire equipment or materials according to its plans and budgets, its ability to complete its work for its customers within the timetable laid down by the contract or at a profit may be impaired. If a manufacturer is unable to deliver the products for any reason, the Group may be required to purchase such equipment or materials from another source at a higher price. The resulting additional costs may be substantial and the Group may be in breach of its contracts with customers, which may result in a financial loss on a particular contract or a loss of business. In addition, any resulting failure to fulfil contracts with customers and other business partners may have an adverse effect on the Group's future profitability and reputation. One key supplier supplies more than 75% of the RTLS components required annually by the Group.

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

Dependence on key customers

The Group is dependent on a number of key contracts and customer relationships for its current and future growth and development. In the financial year to 31st December 2012 the Group's ten largest customers accounted for 67% of the Group's revenue (2011: 68%). The loss of a major customer could result in a decrease in Group revenues, margins and profitability.

In order to mitigate this risk, the Group has extensive sales and account management processes and procedures.

Staff recruitment and retention

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

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

Growth management and acquisitions

The Directors believe that further expansion, either organic or via acquisition, will be required in the future to capitalise on the anticipated increase in demand for the Group's systems. The Group's future success will depend, in part, on its ability to manage this anticipated expansion. Such expansion is expected to place demands on management, support functions, accounting, sales and marketing and other resources. If the Group is unable to manage its expansion effectively, its business and financial results could suffer.

In order to mitigate this risk, the Group undertakes extensive due diligence on acquisition targets and uses dedicated project teams to integrate acquisitions into the Group.

Dividends

The Directors do not recommend payment of a dividend for the year (2011: £nil).

Incorporation and constitution

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

Capital structure

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

Details of the share capital of the Company, including shares issued during the year, can be found in Note 21 of the consolidated financial statements.

Substantial shareholdings

On 1st March 2013, the Company had been notified of the following significant interests in its ordinary share capital:

	Total holding Number	% of issued share capital
Robert Sansom	**2,493,676**	11.37%
Fidelity Investments Limited	**1,344,322**	6.13%
Richard Green	**1,543,011**	7.04%
Ruffer LLP	**1,108,615**	5.06%
David Theriault	**892,000**	4.07%
Amati Global Investors Limited	**750,691**	3.42%
Newton Investment Management Limited	**758,654**	3.46%

Directors

The Directors, who served throughout the year except as noted, were as follows:
G M Campbell
R T Green
P G Harverson
Prof A Hopper
J K Lomas
R G Newell
R Sansom
P Taylor

Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group plc at 31st December 2012 and 31st December 2011 were as follows:

	2012 Number	2011 Number
Gordon Campbell	**87,987**	87,987
Richard Green	**1,543,011**	1,543,011
Peter Harverson	**65,161**	65,161
Andrew Hopper	**225,000**	225,000
J Keith Lomas	**47,712**	47,712
Richard Newell	**643,354**	643,354
Robert Sansom	**2,493,676**	2,493,676
Total	**5,105,901**	5,105,901

There has been no change in the interests set out above between 31st December 2012 and 18th March 2013.

Directors' remuneration, share options and loans

Details of Directors' remuneration, share options and loans are provided in note 7 of the financial statements.

Directors' indemnity arrangements

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

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

Research and development (R&D)

The Group continues to invest in R&D, spending £3.2 million in its R&D programmes in the year (2011: £2.2 million) of which £1.8 million (2011: £1.1 million) was capitalised. The Group undertakes R&D in both divisions and this is discussed in the Chief Executive Officer's review on page 15. The Group will continue to commit a significant level of resource and expenditure, as appropriate, to R&D.

Intellectual property

The Group owns intellectual property both in its software tools and the products derived from them. The Directors consider such properties to be of significant value to the business.

Employee involvement

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

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

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

Employment policies

The Group is committed to following the applicable employment laws in each territory in which it operates.

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

Health and safety environment

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

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

Supplier payment policy and practice

The Group's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier or to ensure the supplier is made aware of the standard payment terms. The Group's normal policy is to pay supplier invoices in accordance with those terms and conditions provided there has been compliance with all trading terms. At 31st December 2012 the Group had an average of 65 days (2011: 63 days) creditors outstanding in trade payables. The Company has no outstanding trade payables at 31st December 2012 (2011: nil).

Donations and community support

The Group made charitable donations during the year of £nil (2011: £nil). There were no donations to political parties. Employees of the Group participate actively in the community of entrepreneurial businesses clustered around Cambridge including Cambridge Network and the Judge Business School. Companies within the Group occasionally take students from higher education on work experience programmes as well as occasional international students on placement.

Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance report on page 28 to 30 of these financial statements. The Corporate Governance report forms part of the Directors' report and is incorporated into it by cross-reference.

Post balance sheet events

There are no significant events since the balance sheet date.

Auditor

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

Annual General Meeting ("AGM")

The AGM of the Company is due to take place at the offices of FTI Consulting, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on 19th April 2013 at 10.00 am.

The resolutions to be proposed at the AGM are explained in detail below and are set out in full in the notice of Annual General Meeting which is set out on pages 68 to 71 of this document. Resolutions 1, 2, 3, 4 and 5 are being proposed as ordinary resolutions (and therefore need the approval of a simple majority of those shareholders who are present and voting in person or by proxy at the AGM) and resolution 6 is being proposed as a special resolution (and therefore needs the approval of at least 75% of those shareholders who are present and voting in person or by proxy at the AGM).

Presentation of the Company's annual accounts (Resolution 1)

Resolution 1 deals with the adoption of the annual accounts for the financial year ending 31st December 2012.

Re-election of Directors (Resolutions 2 and 3)

The Company's articles of association require that one third (or the nearest number not exceeding one third) of the Board retire and seek re-election at each annual general meeting.

At this meeting, Professor Andrew Hopper CBE and Dr. Richard Newell will retire and stand for re-election as Directors. Having considered the performance of and contribution made by Professor Hopper and Dr. Newell, the Board remains satisfied that their performance continues to be effective and that they demonstrate commitment to the role and, as such, recommends their re-election.

Reappointment and remuneration of auditors (Resolution 4)

Resolution 4 proposes the reappointment of Grant Thornton UK LLP as auditors of the Company and authorises the Directors to set the auditors' remuneration.

Authority to issue new ordinary shares (Resolutions 5 and 6)

The Company is seeking a general shareholder authority to authorise the Directors to allot and issue shares and/or grant rights to subscribe for or to convert any security into shares up to an aggregate nominal value of £146,172 (being the nominal value of approximately one third of the current issued share capital of the Company).

Authority to issue new ordinary shares (Resolutions 5 and 6)

The Company is also seeking a limited authority to generally disapply pre-emption rights. This limited authority is only being sought in respect of up to an aggregate nominal value of £65,777 (being the nominal value of approximately 15% of the current issued share capital of the Company). Accordingly, the Directors will only be able to issue this smaller amount (and not the full amount referred to in the paragraph above) for cash unless, at the time of any issue of a larger amount, the Company's then existing Shareholders are also given the opportunity to participate in such larger issue (subject to certain limited exclusions), pro rata to their respective holdings of ordinary shares.

The Directors do not currently have any immediate intention to use these additional authorities but it is considered prudent and is widely accepted practice amongst quoted companies to maintain general authorities so as to enable the Directors to take advantage of opportunities to develop the Company's business.

Resolutions 5 and 6 also ensure that the Directors maintain sufficient authority to issue Ordinary Shares on the exercise of options that were granted by the Company prior to the Company's admission to trading on the AIM Market of the London Stock Exchange.

Resolution 5 provides for the general authority to allot and issue shares under section 551 of the Companies Act 2006 and Resolution 6 provides for the dis-application of the pre-emption provisions of section 570 of the Companies Act 2006.

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

Gordon Campbell
Company Secretary

18th March 2013
Ubisense Group plc
Registered number: 05589712

Corporate governance report

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

The Directors believe that effective corporate governance, appropriate to the Group considering its size and stage of development, will assist in the delivery of corporate strategy, the generation of shareholder value and the safeguarding of shareholders' long-term interests. Therefore, the Directors are committed, wherever it is reasonably practicable, to ensure that the Group is managed in accordance with the principles set out in the UK Corporate Governance Code June 2010 ("the Code").

Composition of the Board

The Board comprises the Non-executive Chairman, five Non-executive Directors and two Executive Directors. Biographical details of all members of the Board are set out on pages 20 and 21.

Since the flotation of the Company in 2011, no equity-based incentives have been granted to Non-executive Directors and there are no such plans for any such grants in the future. At the end of the year, the only Non-executive Director with neither shares nor share options is Mr Taylor.

The holding of shares and share options by Non-executive Directors could, amongst other things, be relevant in determining whether a Non-executive Director is independent. Therefore, after detailed consideration, the Board has determined that Mr Taylor is the only independent Non-executive Director within the meaning of the Code.

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

The role of the Board

The Board holds full meetings at least ten times per year, with attendance required in person whenever possible. The principal matters that it considers are as follows:

- reviewing operating and financial performance;
- ensuring that appropriate management development and succession plans are in place;
- determining of corporate strategy, including consideration and approval of the Company's annual strategy review;
- establishing of dividend policy;
- approving and accepting all new committed funding facilities;
- approving and accepting major changes in the capital structure of the Company;
- reviewing and approving formal treasury policies relating to funding, liquidity, transactional foreign exchange and interest rate risk management;
- reviewing the health and safety and environmental performance of the Company;
- approving corporate acquisitions, mergers, divestments, joint ventures and major capital expenditure; and
- receiving, reviewing and approving recommendations by the designated committee on matters related to audit, nominations and remuneration.

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

Summary of Board meeting attendance in 2012

The Board is expected to meet regularly on a formal basis ten times a year. Sixteen Board meetings were held in 2012. Attendance at the meetings was as follows:

	Regular meetings	Additional meetings	Total Meetings attended
Gordon Campbell	10 (10)	6 (6)	16 (16)
Richard Green	10 (10)	6 (6)	16 (16)
Peter Harverson	10 (10)	4 (6)	14 (16)
Andrew Hopper	10 (10)	6 (6)	16 (16)
J Keith Lomas	9 (10)	6 (6)	15 (16)
Richard Newell	9 (10)	5 (6)	14 (16)
Robert Sansom	8 (10)	4 (6)	12 (16)
Paul Taylor	10 (10)	6 (6)	16 (16)

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

Board Committees

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

Summary of Committee membership

	Audit Committee	Nomination Committee	Remuneration Committee
Peter Harverson	–	Yes	Chair
Andrew Hopper	Observer	Yes	Observer
J Keith Lomas	Yes	–	Yes
Richard Newell	Yes	Yes	–
Robert Sansom	–	Chair	Yes
Paul Taylor	Chair	–	Yes

Summary of Committee meeting attendance

	Audit Committee	Nomination Committee	Remuneration Committee
Peter Harverson	–	1 (1)	4 (4)
Andrew Hopper	2 (3)	1 (1)	1 (4)
J Keith Lomas	3 (3)	–	3 (4)
Richard Newell	3 (3)	1 (1)	–
Robert Sansom	–	1 (1)	2 (4)
Paul Taylor	3 (3)	–	4 (4)

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

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

Audit Committee

The Audit Committee has responsibility for the following matters:

- reviewing the accounts and the key judgements and policies underlying them in relation to the interim and annual financial statements before they are submitted to the Board for final approval;
- reviewing management's reports on internal controls;
- reviewing the Group's risk management process, including the adequacy of insurance cover;
- reviewing the appointment of the external auditors together with the audit fee;
- monitoring the audit and non-audit work of the external auditors, including reviewing any management letters and the Company's response; and
- reviewing the arrangements by which staff may, in confidence, raise concerns about possible improprieties.

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

Nomination Committee

The Nomination Committee has responsibility for the following matters:

- reviewing the size and composition of the Board;
- identifying and nominating suitable candidates to fill vacancies on the Board; and
- reviewing succession planning for both Directors and the management team.

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

Remuneration Committee

The Remuneration Committee has responsibility for the following matters:

- setting the basic pay of executive Directors and the remuneration of the Chairman;
- operating the performance-related bonus plan for the Executive Directors;
- agreeing the allocation and term for the granting of share-based incentives to executive Directors; and
- overseeing the overall annual staff pay review and the operation of the equity-based incentive schemes.

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

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

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

Internal control

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

Directors' responsibilities statement

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

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

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

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

The Directors confirm that:

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

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

Independent auditor's report

To the members of Ubisense Group plc

We have audited the Group financial statements of Ubisense Group plc for the year ended 31st December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31st December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Ubisense Group plc for the year ended 31st December 2012.

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

18th March 2013

Consolidated income statement

For the year ended 31st December 2012

	Notes	2012 £'000	2011 £'000
Revenue	5	**24,292**	23,785
Cost of sales		**(14,690)**	(15,308)
Gross profit		**9,602**	8,477
Administrative expenses		**(10,368)**	(8,188)
Operating (loss)/profit	5	**(766)**	289
Analysed as:			
Gross profit		**9,602**	8,477
Other administrative expenses		**(8,445)**	(7,029)
Adjusted EBITDA	5	**1,157**	1,448
Depreciation		**(227)**	(140)
Amortisation of acquired intangible assets		**(257)**	(112)
Amortisation of other intangible assets		**(953)**	(512)
Share-based payments charge	22.2	**(63)**	(24)
Reorganisation costs	9.2	**(423)**	–
AIM listing expenses		**–**	(324)
Acquisition costs		**–**	(47)
Operating (loss)/profit	5	**(766)**	289
Finance income	8	**38**	37
Finance costs	8	**–**	(185)
(Loss)/profit before tax	9	**(728)**	141
Income tax	10.1	**90**	(107)
(Loss)/profit for the year attributable to the equity shareholders of the Company		**(638)**	34
Earnings per share (pence)			
Basic	11	**(2.8p)**	0.2p
Diluted	11	**(2.8p)**	0.2p

The notes on pages 37 to 62 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31st December 2012

	Notes	2012 £'000	2011 £'000
(Loss)/profit for the year		**(638)**	34
Other comprehensive income:			
Exchange difference on retranslation of net assets and results of overseas subsidiaries	23	**33**	14
Total comprehensive income attributable to equity shareholders of the Company		**(605)**	48

The notes on pages 37 to 62 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31st December 2012

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2011	304	14,550	953	(4,272)	11,535
Profit for the year	–	–	–	34	34
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	14	–	14
Total comprehensive income for the year	–	–	14	34	48
Reserve credit for equity-settled share-based payment	–	–	45	–	45
Equity component of loans	–	–	(502)	502	–
Issue of new share capital	129	–	–	–	129
Premium on new share capital	–	7,968	–	–	7,968
Share issue costs	–	(487)	–	–	(487)
Transactions with owners	129	7,481	(457)	502	7,655
Balance at 31 December 2011	433	22,031	510	(3,736)	19,238
Loss for the year	–	–	–	(638)	(638)
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	33	–	33
Total comprehensive income for the year	–	–	33	(638)	(605)
Reserve credit for equity-settled share-based payment	–	–	63	–	63
Issue of new share capital	5	–	–	–	5
Premium on new share capital	–	220	–	–	220
Transactions with owners	5	220	63	–	288
Balance at 31 December 2012	**438**	**22,251**	**606**	**(4,374)**	**18,921**

The notes on pages 37 to 62 are an integral part of these consolidated financial statements.

A reconciliation of the components of Other reserves is given in note 23.

Consolidated statement of financial position

At 31st December 2012

	Notes	2012 £'000	2011 £'000
Assets			
Non-current assets			
Goodwill	12	**7,418**	7,418
Other intangible assets	13	**2,901**	2,258
Property, plant and equipment	14	**621**	366
Total non-current assets		**10,940**	10,042
Current assets			
Inventories	15	**862**	1,667
Trade and other receivables	16	**10,302**	9,498
Cash and cash equivalents	17	**2,716**	6,034
Total current assets		**13,880**	17,199
Total assets		**24,820**	27,241
Liabilities			
Current liabilities			
Trade and other payables	18	**(5,246)**	(7,294)
Total current liabilities		**(5,246)**	(7,294)
Non-current liabilities			
Deferred income tax liabilities	10	**(653)**	(549)
Other liabilities	20	**–**	(160)
Total non-current liabilities		**(653)**	(709)
Total liabilities		**(5,899)**	(8,003)
Net assets		**18,921**	19,238
Equity attributable to owners of the parent company			
Share capital	21	**438**	433
Share premium account	21	**22,251**	22,031
Other reserves	23	**606**	510
Retained earnings		**(4,374)**	(3,736)
Total equity		**18,921**	19,238

The notes on pages 37 to 62 are an integral part of these Consolidated financial statements.

The financial statements were approved by the Board of Directors on 18th March 2013 and signed on its behalf by:

Richard Green
Chief Executive Officer

Gordon Campbell
Chief Financial Officer

Registered Number: 05589712

Consolidated statement of cash flows

For the year ended 31st December 2012

	Notes	2012 £'000	2011 £'000
(Loss)/profit before tax		**(728)**	141
Adjustments for:			
Depreciation	9, 14	**227**	140
Amortisation	9, 13	**1,210**	624
Loss on the disposal of property, plant and equipment	9	**5**	–
Share-based payments charge	6.2, 22.2	**63**	24
Finance income	8	**(38)**	(37)
Finance costs	8	**–**	185
Operating cash flows before working capital movements		**739**	1,077
Change in inventories		**805**	(1,303)
Change in receivables		**(839)**	(2,065)
Change in payables		**(1,691)**	(96)
Cash used in operations before tax		**(986)**	(2,387)
Net income taxes received		**203**	102
Net cash flows from operating activities		**(783)**	(2,285)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	26	**(400)**	(1,600)
Purchases of property, plant and equipment		**(492)**	(256)
Proceeds on disposal of property, plant and equipment		**1**	–
Expenditure on intangible assets		**(1,849)**	(1,130)
Interest received		**38**	33
Net cash flows from investing activities		**(2,702)**	(2,953)
Cash flows from financing activities			
Repayment of borrowings		**–**	(1,014)
Interest paid		**–**	(47)
Proceeds from the issue of ordinary share capital		**225**	5,238
Net cash flows from financing activities		**225**	4,177
Net decrease in cash and cash equivalents		**(3,260)**	(1,061)
Cash and cash equivalents at start of period		**6,034**	7,130
Exchange differences on cash and cash equivalents		**(58)**	(35)
Cash and cash equivalents at end of period	17	**2,716**	6,034

The notes on pages 37 to 62 are an integral part of these Consolidated financial statements.

1 General information

Ubisense Group plc ("the Company") and its subsidiaries (together, "the Group") deliver mission-critical enterprise asset tracking and geospatial systems.

The Company is a public limited company which is listed on the Alternative Investment Market ("AIM") of the London Stock Exchange (UBI) and is incorporated and domiciled in the United Kingdom. The Company was incorporated as Ubisense Trading Limited on 11th October 2005 and changed its name to Ubisense Group plc on 31st May 2011 ahead of its initial public offering and listing on AIM on 22nd June 2011. The address of its registered office is St. Andrew's House, St. Andrew's Road, Chesterton, Cambridge, CB4 1DL.

The Group has its main operations in the UK, US, Canada, France, and Germany and sells mainly in North America, Europe and Asia.

The Group legally consists of seven companies headed by Ubisense Group plc (UK). The subsidiaries are all 100% owned by Ubisense Group plc and are: Ubisense Limited (UK); Ubisense AG (Germany); Ubisense, Inc. (US); Ubisense Solutions, Inc. (Canada); Ubisense SAS (France) and Geospatial Systems Limited (UK).

These consolidated financial statements have been approved for issue by the Board of Directors on 18th March 2013.

2 New accounting standards

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 1st January 2012.

No new standards, amendments or interpretations to existing standards that have been published and that are mandatory for the Group's accounting periods beginning on or after 1st January 2013, or later periods, have been adopted early. The Directors do not consider that the adoption of these standards and interpretations would have a material impact on the Group's financial statements.

3 Summary of significant accounting policies

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

Basis of preparation

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

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

Going concern basis

The Group meets its day-to-day working capital requirements through its bank facilities. The Group had cash of £2.7 million at the balance sheet date along with a £2 million undrawn bank facility as well as an order book equivalent to 47% of annual revenue. In this context, the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. The Group, therefore, continues to adopt the going concern basis in preparing its financial statements.

3 Summary of significant accounting policies continued

Consolidation

The Group financial statements include the results, financial position and cash flows of the Company and all of its subsidiary undertakings. Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control arises when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Foreign currencies

(a) Functional and presentation currency

The functional currency of each Group entity is the currency of the primary economic environment in which each entity operates. The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

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

(c) Consolidation

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

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

Segment reporting

The Group is organised on a global basis into two operating segments, being the Real-Time Location Systems ("RTLS") and Geospatial divisions. Centrally incurred costs not directly attributable to operating segments are reported under "Central".

This is based upon the Group's internal organisation and management structure and is the primary way in which the Chief Operating Decision Maker (CODM) and the rest of the Board are provided financial information. The Directors believe that the CODM is the Chief Executive Officer of the Group.

Revenue recognition

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

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

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

Services and training revenue from time and materials contracts is recognised in the period that the services and training are provided on the basis of time worked at agreed contractual rates and as direct expenses are incurred.

Revenue from fixed price, long-term customer specific contracts, including customisation and modification, is recognised on the stage of completion of each assignment at the period end date compared to the total estimated service to be provided over the entire contract where the outcome can be estimated reliably. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered. An expected loss on a contract is recognised immediately in the income statement.

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

Employee benefits

(a) Retirement benefits

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

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

(b) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant using the Black-Scholes pricing model. The fair value is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based on the Group's estimate of the number of shares that will eventually vest.

(c) Termination benefits

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

Operating lease income and expense

(a) Rental expense

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

(b) Lease incentives

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

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material non-recurring items of income or expense that have been shown separately due to the significance of their nature or amount.

Interest income and expense

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

3 Summary of significant accounting policies continued

Tax

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

(a) Current tax

The current tax charge represents an estimate of the amounts payable to tax authorities in respect of the Group's taxable profits and is based on an interpretation of existing tax laws. Taxable profit differs from profit before tax as reported in the income statement because it excludes certain items of income and expense that are taxable or deductible in other years or are never taxable or deductible.

(b) Deferred tax

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

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

Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

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

Goodwill

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

Research and development

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

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

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;

- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

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

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

Other intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost and amortised on a straight-line basis over their useful economic life which is typically 3 to 5 years. Intangible assets acquired through a business combination are initially measured at fair value and amortised on a straight-line basis over their useful economic lives. Amortisation is shown within administrative expenses in the income statement. The useful economic lives of the other intangible assets are as follows:

- Software products recognised on acquisition: 3 years
- Customer relationships recognised on acquisition: 5 years
- Order backlog: based on contract life, typically less than 1 year

Property, plant and equipment

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

- Fixtures and fittings: 5 to 8 years, or period of the lease if shorter
- Computer equipment: 3 years
- Demonstration equipment: 1 year

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

Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

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

3 Summary of significant accounting policies continued

Trade receivables

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

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

Cash and cash equivalents

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

Trade payables

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

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

Borrowings

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

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

Share capital and share premium

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

4 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. Actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of goodwill and other intangible assets

The Group tests goodwill for impairment annually. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The Group uses pre-tax discount rates of between 9.7% and 12.5% for this purpose. The carrying amount of goodwill at 31st December 2012 is £7,418,000. Further consideration of the impairment of goodwill is included in note 12.

Capitalisation of development costs

The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgement of the point at which technical and commercial feasibility is demonstrable. The carrying amount of capitalised development costs at 31st December 2012 is £2,110,000.

Revenue recognition

Significant management judgement is applied in determining the allocation and timing of the recognition of revenue on contracts. In this process management takes into account milestones, hardware supplied, actual work performed and further obligations and costs expected to complete the work. The carrying amount of amounts recoverable on contracts at 31st December 2012 is £2,439,000.

Provision for impairment of trade receivables

The Group assesses trade receivables for impairment which requires the Directors to estimate the likelihood of payment forfeiture by customers.

Inventories

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

Deferred tax

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

Valuation of separately identifiable intangible assets

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

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

5 Segment information

5.1 Operating segments

Management has determined the operating segments to be the Group's two divisions based on the reports reviewed by the Chief Executive Officer, who is the Chief Operating Decision Maker.

The Real-Time Location Systems division ("RTLS") delivers mission-critical enterprise asset tracking solutions utilising ultra-wideband ("UWB") technology to locate people and assets in 3D, bringing visibility and control to industrial business processes. The Geospatial division delivers core location-based solutions, typically to blue chip utility and communications companies, to allow them to better plan and maintain their dispersed network of assets. Centrally incurred costs not directly attributable to operating segments are reported under "Central".

Each of these operating segments is managed separately as each deal with different technologies and predominantly different customer bases. The performance of the operating segments is assessed on a measurement of Adjusted EBITDA. The measurement basis excludes depreciation, amortisation, share-based payments charge, non-recurring expenditure such as reorganisation costs, acquisition costs and AIM listing expenses, finance income and expense and income taxes. This is the measure reported to the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance.

5 Segment information

5.1 Operating segments continued

Segment revenue represents revenue generated from external customers, there is no inter-segment revenue. The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

Year ended 31 December 2012	RTLS £'000	Geospatial £'000	Central £'000	Total £'000
Revenue	9,540	14,752	–	24,292
Cost of sales	(4,072)	(10,618)	–	(14,690)
Gross profit	5,468	4,134	–	9,602
Other administrative expenses	(3,946)	(1,101)	(3,398)	(8,445)
Adjusted EBITDA	1,522	3,033	(3,398)	1,157
Depreciation	–	–	(227)	(227)
Amortisation of acquired intangible assets	–	(257)	–	(257)
Amortisation of other intangible assets	(640)	(222)	(91)	(953)
Share-based payments charge	–	–	(63)	(63)
Reorganisation costs	(157)	(209)	(57)	(423)
Operating profit/(loss)	725	2,345	(3,836)	(766)
Finance income	–	–	38	38
Profit/(loss) before tax	725	2,345	(3,798)	(728)
Income tax	–	–	90	90
Profit/(loss) after tax	725	2,345	(3,708)	(638)

Year ended 31 December 2011	RTLS £'000	Geospatial £'000	Central £'000	Total £'000
Revenue	8,650	15,135	–	23,785
Cost of sales	(4,012)	(11,296)	–	(15,308)
Gross profit	4,638	3,839	–	8,477
Other administrative expenses	(3,936)	(738)	(2,355)	(7,029)
Adjusted EBITDA	702	3,101	(2,355)	1,448
Depreciation	–	–	(140)	(140)
Amortisation of acquired intangible assets	–	(112)	–	(112)
Amortisation of other intangible assets	(437)	(57)	(18)	(512)
Share-based payments charge	–	–	(24)	(24)
AIM listing expenses	–	–	(324)	(324)
Acquisition costs	–	–	(47)	(47)
Operating profit/(loss)	265	2,932	(2,908)	289
Finance income	–	–	37	37
Finance costs	–	–	(185)	(185)
Profit/(loss) before tax	265	2,932	(3,056)	141
Income tax	–	–	(107)	(107)
Profit/(loss) after tax	265	2,932	(3,163)	34

5.2 Geographical areas

The Group's operating segments operate in four main geographical areas, even though they are managed on a global basis. Revenue and non-current assets (excluding goodwill) by geographical area are as follows:

	Revenue		Non-current assets	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
UK	**1,441**	1,471	**2,216**	1,760
Germany	**8,328**	11,469	**176**	224
US	**8,141**	8,853	**1,035**	635
Asia Pacific	**2,733**	406	**–**	–
Other	**3,649**	1,586	**63**	5
Total	**24,292**	23,785	**3,490**	2,624

Revenues from external customers in the Group's domicile, the UK, as well as its major markets, Germany, US and Asia Pacific, have been identified on the basis of the customer's geographical location. Non-current assets are allocated based on their physical location.

5.3 Information about major customers

During 2012, revenues of £2.9 million (2011: £1.3 million) derived from one Geospatial customer in the US, revenues of £2.6 million (2011: £2.1 million) and £1.7 million (2011: £5.3 million) derived from two Geospatial customers based in Germany and revenues of £1.0 million (2011: £2.6 million) from one RTLS customer based in both Germany and the US.

6 Employee information

6.1 Employee numbers

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

	2012 Number	2011 Number
By activity		
Technical consultants	**96**	75
Sales and Marketing	**37**	28
Research and Development	**31**	21
Administration	**20**	14
Total average number of employees	**184**	138
By segment		
Geospatial	**94**	64
RTLS	**70**	60
Central	**20**	14
Total average number of employees	**184**	138

The total number of employees at 31st December 2012 was 175 (2011: 172).

6 Employee information continued

6.2 Employee benefits

	Notes	2012 £'000	2011 £'000
Wages and salaries		**12,286**	10,236
Social security costs		**1,265**	979
Contributions to defined contribution pension arrangements		**562**	419
Share-based payments	22.2	**63**	24
Total aggregate employee benefits		**14,176**	11,658

Included in the above are termination benefits of £404,000 (2011: £nil) which are presented as reorganisation costs in the income statement – see note 9.2.

6.3 Key management compensation

Key management includes Directors (Executive and Non-executive) and members of the Global Management Team. During the year, there were 13 key management personnel (2011: 14). The compensation paid or payable to key management for employee services is shown below:

	2012 £'000	2011 £'000
Short-term employee benefits		
Wages and salaries	**879**	925
Social security costs	**84**	59
Other benefits	**21**	29
	984	1,013
Post-employment benefits		
Contributions to defined contribution pension arrangements	**52**	74
Share-based payments		
Equity-settled share-based payments	**24**	11
Total key management compensation	**1,060**	1,098

7 Directors' remuneration and interests

7.1 Directors' remuneration

Director	Basic salary £'000	Performance payments £'000	Benefits in kind £'000	Subtotal £'000	Employer's contributions to defined contribution pension arrangements £'000	Total 2012 £'000	Total 2011 £'000
Gordon Campbell*	96	12	1	109	15	**124**	106
Richard Green*	135	50	3	188	13	**201**	137
Peter Harverson	15	–	–	15	–	**15**	16
Andrew Hopper	25	–	–	25	–	**25**	15
J Keith Lomas	15	–	–	15	–	**15**	6
Richard Newell	15	–	–	15	–	**15**	–
Robert Sansom**	–	–	–	–	–	**–**	–
Paul Taylor	15	–	–	15	–	**15**	13
Total	316	62	4	382	28	**410**	293

* The Directors are remunerated through the Company's flexible benefits scheme under which they can elect to switch basic salary into pension contributions and other benefits. The basic salary entitlement in the year was: Richard Green £140,000; Gordon Campbell £105,000.

** Robert Sansom has waived his entitlement to annual remuneration in the year of £15,000.

7.2 Directors' interests – share options

Director	Award date Years	Vests Years	Expires Year	Exercise price £	Awards outstanding at 1 January 2011 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Awards outstanding at 31 December 2012 number	Awards exercisable at 31 December 2011 number
Gordon Campbell	2010	2011–13	2020	0.140	120,500	–	–	–	**120,500**	80,335
	2011	2012–14	2021	1.050	32,500	–	–	–	**32,500**	10,834
	2012	2013–15	2022	2.125	–	40,000	–	–	**40,000**	–
					153,000	40,000	–	–	**193,000**	91,169
Richard Green	2010	2011–13	2020	0.140	76,278	–	–	–	**76,278**	50,853
	2011	2012–14	2021	1.050	100,000	–	–	–	**100,000**	33,334
	2012	2013–15	2022	2.125	–	60,000	–	–	**60,000**	–
					176,278	60,000	–	–	**236,278**	84,187
Peter Harverson	2010	2011–13	2020	0.140	91,333	–	–	–	**91,333**	60,889
Andrew Hopper	2010	2011–13	2020	0.140	20,278	–	–	–	**20,278**	13,519
Richard Newell	2010	2011–13	2020	0.140	1,056	–	–	–	**1,056**	704
Total					**441,945**	**100,000**	**–**	**–**	**541,945**	250,468

The 2012 grants vest subject to meeting performance criteria set out in the long-term incentive plan ("LTIP"). No other Directors have been granted share options in the Company or other Group entities. None of the terms and conditions of the share options were varied during the year. All options were granted in respect of qualifying services. There have been no options granted to or exercised by Directors between 31st December 2012 and 18th March 2013.

The market price of the Company's shares at the end of the financial year was £2.315. The range of market prices during the year was between £1.825 and £2.325.

7.3 Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group plc, at 31st December 2012 and 31st December 2011, were as follows:

	2012 Number	2011 Number
Gordon Campbell	**87,987**	87,987
Richard Green	**1,543,011**	1,543,011
Peter Harverson	**65,161**	65,161
Andrew Hopper	**225,000**	225,000
J Keith Lomas	**47,712**	47,712
Richard Newell	**643,354**	643,354
Robert Sansom	**2,493,676**	2,493,676
Total	**5,105,901**	5,105,901

There has been no change in the interests set out above between 31st December 2012 and 18th March 2013.

8 Finance income and costs

	2012 £'000	2011 £'000
Interest income from cash and cash equivalents	**38**	37
Finance income	**38**	37
Interest payable – bank	–	(26)
Interest payable – other loans	–	(159)
Finance costs	–	(185)
Net finance income/(costs)	**38**	(148)

9 Profit before tax: analysis of expenses by nature

9.1 Expenses by nature

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

	Notes	2012 £'000	2011 £'000
Amortisation of acquired intangible assets	13	**257**	112
Amortisation of other intangible assets	13	**953**	512
Depreciation of owned property, plant and equipment	14	**227**	140
Loss on disposal of property, plant and equipment		**5**	–
Operating lease rental charges – land and buildings		**355**	320
Operating lease rental charges – other		**124**	134
Research and development costs expensed		**1,312**	1,109
Net foreign currency losses		**153**	12
Reorganisation costs	9.2	**423**	–
AIM listing expenses		–	324
Acquisition costs		–	47
Auditors' remuneration	9.3	**81**	165

9.2 Reorganisation costs

During the year, the Group incurred reorganisation costs totalling £423,000 comprising mainly redundancy costs in order to integrate the Geospatial acquisitions made in 2011 and to centralise the Research and Development and Sales and Marketing functions of both divisions.

9.3 Auditors' remuneration

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

	Notes	2012 £'000	2011 £'000
Fees payable to the Group's auditor for the audit of:			
Parent Company and consolidated financial statements		**14**	13
Financial statements of subsidiaries, pursuant to legislation		**43**	27
		57	40
Fees payable to the Group's auditor for other services:			
Tax services		**15**	5
Other services		**9**	120
		24	125
Auditors' remuneration	9.1	**81**	165

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

10 Income tax

10.1 Income tax recognised in the income statement

	2012 £'000	2011 £'000
Current tax		
UK Corporation Tax	–	–
Foreign tax	**9**	(9)
Research and development tax credits – prior years	**(203)**	(124)
Total current tax credit	**(194)**	(133)
Deferred tax		
Origination and reversal of temporary differences	**104**	240
Total deferred tax expense	**104**	240
Total income tax (credit)/expense	**(90)**	107

The tax credit (2011: expense) differs from the standard rate of corporation tax in the UK for the year of 24% (2011: 26%) for the following reasons:

	2012 £'000	2011 £'000
(Loss)/profit before tax	**(728)**	141
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 24% (2011: 26%)	**(175)**	37
Tax effects of:		
Expenses not deductible for tax purposes	**21**	113
Accrued contingent consideration released not subject to tax	**(38)**	–
Utilisation of previously unrecognised tax losses	**(259)**	–
Tax losses for which no deferred tax asset was recognised	**832**	14
Tax unprovided in prior years	**9**	–
Research and development tax credits – prior years	**(203)**	(124)
Differential on overseas tax rates	**(233)**	(8)
Remeasurement of deferred tax – change of rate	**(58)**	(5)
Other temporary differences	**14**	80
Total income tax (credit)/expense	**(90)**	107

10.2 Factors that may affect future tax charges

The Group has tax losses of £4.4 million (2011: £2.9 million) that are available for offset against future taxable profits of those subsidiary companies in which the tax losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, and they have arisen in subsidiaries whose future taxable profits are uncertain. No deferred tax has been recognised on the unremitted earnings of overseas subsidiaries, because the earnings are continually reinvested by the Group and no tax is expected to be payable on them in the foreseeable future.

As a result of the reduction in the UK corporation tax rate to 23% that was substantively enacted on 3rd July 2012 and effective from 1st April 2013, the deferred tax balances have been remeasured. The proposed reduction of the main rate of corporation tax to 22% from 1st April 2014 is expected to be enacted separately later in 2013. This change has not been substantively enacted at the balance sheet date and, therefore, is not recognised in the financial statements.

10 Income tax continued

10.3 Deferred tax

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

	Deferred income tax assets		Deferred income tax liabilities	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
At 1 January	**–**	–	**(549)**	(140)
Arising on acquisition of subsidiaries	**–**	119	**–**	(288)
Deferred tax credited to the income statement	**–**	–	**88**	32
Deferred tax charged to the income statement	**–**	(119)	**(192)**	(153)
At 31 December	**–**	–	**(653)**	(549)

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

	2012 £'000	2011 £'000
Development costs capitalised	**(485)**	(293)
Intangible assets recognised on acquisition of subsidiaries	**(168)**	(256)
Total deferred income tax liabilities	**(653)**	(549)

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

	2012 £'000	2011 £'000
Tax losses carried forward	**1,343**	851
Equity-settled share options temporary differences	**289**	168
Total unrecognised deferred tax assets	**1,632**	1,019

11 Earnings per share

Basic and diluted earnings per share	2012	2011
Earnings		
(Loss)/profit for the period (£'000)	**(638)**	34
Earnings for the purposes of diluted earnings per share (£'000)	**(638)**	34
Number of shares		
Basic weighted average number of shares ('000)	**21,764**	18,897
Effect of dilutive potential ordinary shares:		
– Share options ('000)	**1,383**	1,423
– Warrants ('000)	**–**	57
Diluted weighted average number of shares ('000)	**23,147**	20,377
Basic earnings per share (pence)	**(2.8p)**	0.2p
Diluted earnings per share (pence)	**(2.8p)**	0.2p

Basic earnings per share is calculated by dividing profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. For diluted earnings per share, the weighted average number of shares is adjusted to allow for the effects of all dilutive share options and warrants outstanding at the end of the year. Options have no dilutive effect in loss-making years, and hence the diluted loss per share for the year is the same as the basic loss per share.

The Group also presents an adjusted diluted earnings per share figure which excludes amortisation on acquired intangible assets, share-based payments charge and non-recurring expenditure such as reorganisation costs, AIM listing expenses and acquisition costs from the measurement of profit for the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and the Group's convertible bonds).

Adjusted diluted earnings per share	Notes	2012	2011
Earnings for the purposes of diluted earnings per share (£'000)		**(638)**	34
Adjustments:			
Reversal of amortisation on acquired intangible assets (£'000)	9, 13	**257**	112
Reversal of share-based payments charge (£'000)	9	**63**	24
Reversal of reorganisation costs	9	**423**	–
Reversal of AIM listing expenses (£'000)	9	**–**	324
Reversal of acquisition costs (£'000)	9	**–**	47
Net adjustments (£'000)		**743**	507
Adjusted earnings (£'000)		**105**	541
Adjusted diluted earnings per share (pence)		**0.5p**	2.7p

12 Goodwill

	Goodwilll £'000
Balance at 1 January and 31 December 2012	**7,418**

Impairment testing for cash-generating units containing goodwill

Goodwill acquired through business combinations is allocated to groups of cash generating units ('CGU's) for impairment testing as follows:

	2012 £'000	2011 £'000
RTLS	**3,256**	3,256
Geospatial	**4,162**	4,162
Total	**7,418**	7,418

The recoverable amounts of all CGUs have been determined from value-in-use calculations based on 5 year forecasts projected from the 2013 annual operating plan approved by the Board for each CGU with an assumed terminal growth rate of nil and no improvement in relative operating margin during or after the forecast period. This is considered prudent when compared to recent experience and current expectations of the long-term industry growth rate for both CGUs.

A discount rate of 12.5% for RTLS and 9.7% for Geospatial has been estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each CGU.

Revenue growth assumptions are based on the annual operating plan taking into account industry growth rates and Ubisense's historical experience in the context of the wider industry and economic conditions. The underlying organic revenue growth rate for RTLS is assumed to be 20% with the division expected to continue at above-average rates for the foreseeable future as a result of significant investment in research and development and a growing opportunity customer base and sector presence. The underlying organic growth rate for Geospatial is assumed to be 10% reflecting steady growth in a more mature market where the division is increasing its presence in key sectors where it has acknowledged expertise.

The Board has considered reasonable possible sensitivities in key assumptions on which the value-in-use calculations are based. For RLTS, sensitivity analysis shows that if the underlying organic revenue growth rate was below 6%, or if the discount rate is increased in isolation above 21%, the estimated recoverable amount is equal to carrying value. For Geospatial, if the underlying organic revenue growth rate reduced to 0%, or if the discount factor increased to 20%, this would not cause the carrying value to exceed estimated recoverable amount.

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

13 Other intangible assets

	Capitalised development costs £'000	Software £'000	Acquired software products £'000	Acquired customer relationships and order backlog £'000	Total £'000
Cost					
At 1 January 2011	1,476	11	–	–	1,487
Reclassifications	–	56	–	–	56
Additions	1,103	225	–	–	1,328
Acquisition of subsidiaries	–	3	529	449	981
At 31 December 2011	2,579	295	529	449	3,852
Effects of movement in exchange rates	–	(12)	–	–	(12)
Additions	1,845	16	–	–	1,861
At 31 December 2012	**4,424**	**299**	**529**	**449**	**5,701**
Accumulated amortisation					
At 1 January 2011	958	4	–	–	962
Reclassification	–	8	–	–	8
Charge for the year	494	18	44	68	624
At 31 December 2011	1,452	30	44	68	1,594
Effects of movement in exchange rates	–	(4)	–	–	(4)
Charge for the year	862	91	177	80	1,210
At 31 December 2012	**2,314**	**117**	**221**	**148**	**2,800**
Net book amount					
At 31 December 2012	**2,110**	**182**	**308**	**301**	**2,901**
At 31 December 2011	1,127	265	485	381	2,258

Capitalised development assets relate to expenditure that can be applied to a plan or design for the production of new or substantially improved products and processes.

The software assets represent assets purchased from third parties.

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

14 Property, plant and equipment

	Fixtures and Fittings £'000	Computer Equipment £'000	Total £'000
Cost			
At 1 January 2011	174	440	614
Effect of movements in exchange rates	(3)	(5)	(8)
Reclassification	–	(56)	(56)
Additions	47	213	260
Acquisition of subsidiaries	3	14	17
Disposals	–	(1)	(1)
At 31 December 2011	221	605	826
Effect of movements in exchange rates	(7)	(13)	(20)
Reclassification	31	(31)	–
Additions	321	174	495
Disposals	(23)	(218)	(241)
At 31 December 2012	**543**	**517**	**1,060**
Accumulated depreciation			
At 1 January 2011	95	240	335
Effect of movements in exchange rates	(1)	(5)	(6)
Charge for the year	34	106	140
Reclassification	–	(8)	(8)
Disposals	–	(1)	(1)
At 31 December 2011	128	332	460
Effect of movements in exchange rates	(6)	(7)	(13)
Charge for the year	77	150	227
Reclassification	20	(20)	–
Disposals	(20)	(215)	235)
At 31 December 2012	**199**	**240**	**439**
Net book amount			
At 31 December 2012	**344**	**277**	**621**
At 31 December 2011	93	273	366

15 Inventories

	2012 £'000	2011 £'000
Raw materials	**182**	–
Finished goods	**680**	1,667
Total inventories	**862**	1,667

Included in the analysis above are impairment provisions against inventory amounting to £44,000 (2011: £56,000). The Group's inventories are comprised of products which are not generally subject to rapid obsolescence on account of deterioration in condition, market trends or technological reasons.

The cost of inventories recognised as an expense and included in "cost of sales" amounted to £1,571,000 (2011: £1,426,000).

16 Trade and other receivables

	Notes	2012 £'000	2011 £'000
Trade receivables, gross		**7,390**	7,541
Allowances for doubtful debts	16.1	**(80)**	(7)
Trade receivables, net	16.2	**7,310**	7,534
Amounts recoverable on contracts		**2,439**	1,588
Other receivables		**40**	21
Prepayments and accrued income		**502**	314
VAT and taxation receivable		**11**	41
Total trade and other receivables		**10,302**	9,498

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

Due to having a blue chip customer base and effective credit control procedures, the Group is not significantly exposed to the risk of bad debt. The following disclosures are in respect of trade receivables that are either impaired or past due. The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic situations. Any impairment is assessed on a customer-by-customer basis following a detailed review of the particular circumstances. To the extent they have not been specifically provided against, the trade receivables are considered to be of sound credit rating.

16.1 Movement in allowance for doubtful debts

	2012 £'000	2011 £'000
At 1 January	**(7)**	(83)
Exchange differences	–	1
Amounts recovered in the year	**7**	82
Allowance made	**(80)**	(7)
At 31 December	**(80)**	(7)

16.2 Ageing of past due but not impaired receivables

	2012 £'000	2011 £'000
Neither past due nor impaired	**5,360**	6,120
Past due but not impaired:		
0 to 90 days overdue	**1,360**	881
More than 90 days overdue	**590**	533
Total	**7,310**	7,534

17 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	**2,716**	3,367
Short-term bank deposits	–	2,667
Cash and cash equivalents	**2,716**	6,034

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

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

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

	2012 £'000	2011 £'000
British Pound (GBP)	**723**	3,939
Euro (EUR)	**1,101**	1,619
US Dollar (USD)	**847**	414
Canadian Dollar (CAD)	**45**	62
Cash and cash equivalents	**2,716**	6,034

18 Trade and other payables

	Notes	2012 £'000	2011 £'000
Payments received on account		**1,002**	1,995
Trade payables		**1,936**	2,110
Trade accruals		**1,404**	1,633
Other taxation and social security		**612**	817
Other payables		**292**	339
Other liabilities – contingent consideration	26	–	400
Total trade and other payables		**5,246**	7,294

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

19 Loans and borrowings

In November 2012, the Group agreed a new annual bank facility of up to £2.0 million to provide additional future working capital capacity. Interest is payable at LIBOR plus 3.00% and the facility is secured on the fixed and floating assets of the Group. The facility is subject to certain operating performance and net worth covenants of the business. As at 31 December 2012, and as at 18th March 2013, the facility is undrawn.

20 Other liabilities

	Notes	2012 £'000	2011 £'000
Other liabilities – contingent consideration	26	–	160

21 Share capital and premium

	Number of ordinary shares of £0.02 each	Share capital £'000	Share premium £'000	Total £'000
Balance at 1 January 2011	15,211,490	304	14,550	14,854
Share issue	2,777,778	56	4,944	5,000
Share issue costs	–	–	(486)	(486)
Issued under share-based payment plans	376,308	8	125	133
Issued on conversion of Convertible Loan	3,176,772	63	2,796	2,859
Issued on exercise of warrants	115,350	2	102	104
Change in year	6,446,208	129	7,481	7,610
Balance at 31 December 2011	21,657,698	433	22,031	22,464
Issued under share-based payment plans	154,937	3	29	32
Issued on conversion of warrants	107,109	2	191	193
Change in year	262,046	5	220	225
Balance at 31 December 2012	**21,919,744**	**438**	**22,251**	**22,689**

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

During the period, the Company issued 262,046 shares, increasing the total number of shares in issue from 21,657,698 to 21,919,744 as follows:

- 154,937 shares as a result of options exercised with a weighted average exercise price of £0.21 per share for total cash consideration of £32,461; and
- 107,109 shares as a result of exercise of warrants at £1.80 per share for cash consideration of £192,796.

22 Share-based payments: options and warrants

22.1 Equity-settled share-based payment arrangements

a) Share option plans

The Group operates a number of plans to award options over shares in the Company to the best-performing employees of the Group around the world.

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

b) Warrants

During 2011, at the time of the initial public offering on AIM, the Group granted warrants to a professional adviser in lieu of fees. The warrants were granted at a subscription price equal to the market price of the shares under warrant at the date of the grant. The warrants were exercisable immediately and had a contractual life of eighteen months from the date of grant after which they expire if unexercised. The warrants were exercised in their entirety during 2012 and no further warrants have been granted.

22.2 Analysis of amounts recognised in the financial statements

a) Analysis of amounts recognised in the Consolidated income statement

	2012 £'000	2011 £'000
Total share-based payments charge recognised in operating profit	**63**	24

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

	2012 £'000	2011 £'000
Net credit to the share-based payments reserve	**63**	46
Charge to the share premium account	–	(22)
Net share-based payments credit recognised in equity	**63**	24

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

	2012 £'000	2011 £'000
Cumulative reserve credit for share-based payments	**654**	591

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

Arrangement	Award date Year	Vests Years	Expires Year	Exercise price £	Awards outstanding at 1 January 2012 number	Granted during the year number	Exercised during the year number	Forfeited during the year number	Awards outstanding at 31 December 2012 number	Awards exercisable at 31 December 2012 number
Options	2006	2007–09	2016	0.900	2,500	–	–	–	**2,500**	2,500
	2007	2008–10	2017	0.900	300	–	–	–	**300**	300
	2008	2009–11	2018	0.900	650	–	–	–	**650**	650
	2009	2009	2019	0.900	4,457	–	–	–	**4,457**	4,457
	2010	2011–13	2020	0.140	1,404,647	–	(143,102)	(17,730)	**1,243,815**	726,658
	2011	2012–14	2021	1.050	488,800	–	(11,835)	(49,499)	**427,466**	141,630
	2011	2012–14	2021	1.980	32,532	–	–	–	**32,532**	10,845
	2012	2013–15	2022	2.125	–	347,000	–	(1,000)	**346,000**	–
Options					1,933,886	347,000	(154,937)	(68,229)	**2,057,720**	887,040
Warrants	2011	2011	2012	1.800	107,109	–	(107,109)	–	**–**	–
Total					**2,040,995**	**347,000**	**(262,046)**	**(68,229)**	**2,057,720**	**887,040**
Weighted average exercise price (pence)					0.477	2.125	0.860	0.829	**0.695**	0.315

The weighted average share price at the date of exercise for options exercised during the year was £2.126 (2011: £1.950).

22 Share-based payments: options and warrants continued

22.4 Principal assumptions

The fair value of share-based payments grants has been valued using the Black-Scholes option-pricing model. Expected volatility was determined based on the historic volatility of comparable companies. The expected life is the expected period from grant to exercise based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. The risk-free rate of return is an average yield on the zero-coupon UK Government Bond in issue at the date of grant with a similar life to the option or warrant.

The following assumptions were used in the model for options and warrants granted during the years ended 31 December 2012 and 31st December 2011:

Instrument	Option	Option	Warrant	Option
Number granted	347,000	32,532	107,109	491,300
Grant date	29 June 2012	26 September 2011	22 June 2011	16 May 2011
Share price at grant date (£)	2.125	1.980	1.800	1.050
Exercise price (£)	2.125	1.980	1.800	1.050
Fair value per option (£)	0.6	0.31	0.20	0.18
Expected life (years)	3.0	3.0	1.5	3.0
Expected volatility (%)	20.00%	20.00%	20.00%	20.00%
Risk-free interest rate (%)	0.87%	1.40%	2.03%	2.30%
Expected dividends expressed as a dividend yield (%)	0.00%	0.00%	0.00%	0.00%

23 Other reserves

	Equity component of convertible loans and warrants £'000	Share-based payment reserve £'000	Translation reserve £'000	Total £'000
Balance at 1 January 2011	502	546	(95)	953
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	14	14
Reserve credit for equity-settled share-based payment	–	45	–	45
Equity component of loans	(502)	–	–	(502)
Balance at 31 December 2011	–	591	(81)	510
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	33	33
Reserve credit for equity-settled share-based payment	–	63	–	63
Balance at 31 December 2012	**–**	**654**	**(48)**	**606**

Share-based payment reserve

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

Translation reserve

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

24 Operating lease commitments

Leases as lessee

At 31st December 2012, the Group has lease agreements in respect of property and equipment for which payments extend over a number of years. The Group enters into these arrangements as these are a cost-efficient way of obtaining the short-term benefits of these assets. The Group lease rental charge is disclosed in note 9. There are no other material off-balance sheet arrangements.

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

	Land and buildings		Other	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
No later than one year	**360**	326	**111**	125
Later than one year and no later than five years	**1,512**	635	**91**	95
Later than five years	**853**	535	**–**	–
Total	**2,725**	1,496	**202**	220

The above table reflects the committed cash payments under operating leases, rather than the expected charge to the income statement in the relevant periods. The effect on the income statement will differ to the above figures due to the amortisation of rent-free and discounted rent periods included in a new property lease signed in 2012. The expected charge in 2013 for operating leases is expected to be £103,000 higher than the committed cash payments shown above. The Group has guaranteed rent bonds issued by its banks on its behalf totalling £125,000 as at 31st December 2012 (2011: £ nil). These are not expected to result in any material financial loss.

25 Principal subsidiaries

The Company's subsidiary undertakings at 31st December 2012 are shown below. All are included in the Group financial statements and wholly owned directly by the Company. All subsidiaries prepare accounts up to 31st December each year except for Geospatial Systems Limited (formerly Realworld OO Systems Limited) which prepares accounts up to 31st March.

Subsidiary	Country of incorporation	Principal activity
Ubisense Limited	UK	Location solutions
Ubisense AG	Germany	Location solutions
Ubisense SAS	France	Location solutions
Ubisense, Inc.	US	Location solutions
Ubisense Solutions, Inc.	Canada	Location solutions
Geospatial Systems Limited	UK	Location solutions

26 Contingent consideration

Under the contingent cash consideration arrangement, the Group is required to pay additional amounts to the vendors of Realworld OO Systems Limited (now Geospatial Systems Limited) based on the achievement of two separate performance milestones that may have arisen between 2011 and 2013 with a combined undiscounted range of outcomes between nil and £1,150,000. A liability of £560,000 was recognised at the acquisition date, based on management's best estimate of the probability-adjusted expected cash outflow from the arrangement. £400,000 was paid in the year relating to the first milestone and the amount recognised for the second milestone has been reduced to nil based on most recent management estimates.

The maturity of contingent consideration is as follows:

	Notes	2012 £'000	2011 £'000
Current	18	–	400
Non-current	20	–	160
Total		–	560

27 Financial risk management

27.1 Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised below. The main types of risks are market risk, credit risk and liquidity risk. The Group is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk, which result from its operating activities.

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

27.2 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. The Group's policy is to maintain natural hedges where possible, by matching foreign currency revenue and expenditure. The Group does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk as the Group's currency transactions are not considered significant enough to warrant this.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date, not denominated in the local functional currency, are as follows:

	US Dollars		Euros	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Assets	**752**	539	**817**	485
Liabilities	**(16)**	(7)	**(3)**	–

27.3 Foreign currency sensitivity analysis

The Group is mainly exposed to US Dollars and Euros. The Group seeks to manage cash inflows and outflows in each currency to mitigate currency exposure and exchange risk. The following table details the Group's sensitivity to a 5% increase and decrease in the Sterling exchange rate against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number indicates an increase in profit or equity.

	US Dollars		Euro	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Effect of a 5% strengthening in relevant exchange rate on:				
Income statement	**37**	25	**39**	23
Equity	**37**	25	**39**	23
Effect of a 5% weakening in relevant exchange rate on:				
Income statement	**(40)**	(28)	**(43)**	(26)
Equity	**(40)**	(28)	**(43)**	(26)

27.4 Interest rate sensitivity

During 2012, the Group had no outstanding debt facilities and so the Group's exposure to interest rates is minimal.

The Group's exposure to market risk for the changes in interest rates relates primarily to the Group's bank deposits. The Group's policy is to maintain flexibility and preserve capital rather than to optimise interest rates on bank deposits held, but the exposure to interest rate fluctuations on its deposits is reduced by placing these at fixed rates of interest with varying maturity dates.

The aggregate amount of the Group's cash deposits on fixed interest terms as at 31st December 2012 was £nil (2011: £2.7 million). The weighted average fixed interest rate on the cash balances during the year was 1.28% (2011: 1.21%) and the weighted average period for which the rate is fixed was 31 days (2011: 40 days). The aggregate amount of cash deposits on variable interest terms held with clearing bankers as at 31st December 2012 was £2.7 million (2011: £3.3 million).

The following table illustrates the sensitivity of the net profit of the Group for the year and equity to a possible change in interest rates of +0.5% and -0.5%, with effect from the beginning of the year. A positive number indicates an increase in profit or equity.

	2012 £'000	2011 £'000
Effect of a 0.5% strengthening in interest rate on:		
Income statement	**17**	32
Equity	**17**	32
Effect of a 0.5% weakening in interest rate on:		
Income statement	**16**	(20)
Equity	**16**	(20)

27.5 Credit risk analysis

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised in note 27.8, which are principally cash and cash equivalents and trade receivables.

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

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

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

27 Financial risk management continued

27.6 Liquidity risk analysis

Liquidity risk is the risk arising from the Group not being able to meet its obligations as they fall due. The Group seeks to manage this risk by ensuring sufficient liquidity is available to meet the foreseeable needs and to invest cash assets safely and profitably. The Group policy throughout the year has been to place surplus funds on short-term treasury deposit or interest bearing reserve accounts based on its cash flow forecasting. The Group manages its liquidity needs by carefully monitoring forecast cash inflows and outflows due in day-to-day business. Net cash requirements are compared to balances in order to determine headroom or any shortfalls. As disclosed in note 19, the Group entered into a bank facility of up to £2 million in November 2012 which had not been drawn down as at 31st December 2012.

The Group's financial liabilities have contractual maturities as summarised below:

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
As at 31 December 2012				
Trade and other payables	**3,632**	–	–	–
As at 31 December 2011				
Trade and other payables	4,482	–	160	–

Financial assets used for managing liquidity risk

Cash flows from trade and other receivables are contractually due within six months. Cash is generally held in accounts with immediate notice. Where surplus cash deposits are identified these are placed in accounts with access terms of no more than three months.

27.7 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern whilst maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents and capital and reserves attributable to the owners of the Company, as disclosed in the consolidated statement of financial position, with no outstanding debt as at 31st December 2012 or 31st December 2011.

In order to maintain or adjust the capital structure, the Group may issue shares, take on debt, sell assets to raise cash, adjust the amount of dividends payable to shareholders or return capital to shareholders. The Group is not subject to externally imposed capital requirements. The capital structure is continually monitored by the Group. As disclosed in note 19, the Group entered into a bank facility of up to £2 million in November 2012 which had not been drawn down as at 31st December 2012.

27.8 Categories of financial instruments

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

	Notes	2012 £'000	2011 £'000
Financial assets			
Loans and receivables:			
– Trade receivables	16	**7,310**	7,534
– Amounts recoverable on contracts	16	**2,439**	1,588
– Other receivables	16	**40**	21
– Cash and cash equivalents	17	**2,716**	6,034
Total financial assets		**12,505**	15,177
Financial liabilities			
Amortised cost:			
– Trade payables	18	**1,936**	2,110
– Trade accruals	18	**1,404**	1,633
– Other payables	18	**292**	339
– Contingent consideration	26	**–**	560
Total financial liabilities		**3,632**	4,642

Independent auditor's report

To the members of Ubisense Group plc

We have audited the parent company financial statements of Ubisense Group plc for the year ended 31st December 2012 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Ubisense Group plc for the year ended 31st December 2012.

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

18th March 2013

Company balance sheet

At 31st December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments in subsidiaries	3	**15,906**	16,003
Current assets			
Debtors	4	**7,772**	8,067
Cash at bank and in hand		–	2
		7,772	8,069
Creditors – amounts falling due within one year	5, 7	–	(400)
Net current assets		**7,772**	7,669
Total assets less current liabilities		**23,678**	23,672
Creditors – amounts falling due after more than one year	6, 7	–	(160)
Net assets		**23,678**	23,512
Capital and reserves			
Called-up share capital	8	**438**	433
Share premium account	9	**22,251**	22,031
Share-based payment reserve	9	**654**	591
Profit and loss reserve	9	**335**	457
Equity shareholders' funds	10	**23,678**	23,512

The notes on pages 65 to 67 are an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 18th March 2013 and signed on its behalf by:

Richard Green
Chief Executive Officer

Gordon Campbell
Chief Financial Officer

Registered Number: 05589712

1 Principal accounting policies

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

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

The Company has taken advantage of the exemption allowed under FRS 8 "Related party disclosures" not to show transactions with other wholly-owned companies in the Group headed by Ubisense Group plc.

Share-based payments

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

Investments in subsidiaries

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

Deferred taxation

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

2 Loss for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Ubisense Group plc reported a loss for the financial year ended 31st December 2012 of £122,000 (2011: nil).

The Company does not have any employees (2011: nil). Directors' emoluments are disclosed in note 7 of the consolidated financial statements. The Directors were not remunerated by the parent company.

3 Investments in subsidiaries

	Investments in subsidiaries £'000
Cost and net book amount	
At 1 January 2012	16,003
Contingent consideration adjustment	(160)
Capital contribution relating to share-based payments	63
At 31 December 2012	**15,906**

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

Contingent consideration adjustment
The contingent consideration adjustment relates to a reduction in the estimate of amounts payable to the vendors of Realworld OO Systems Limited (now Geospatial Systems Limited) as disclosed in note 26 of the consolidated financial statements.

Subsidiary undertakings
A complete list of subsidiary undertakings is given in note 25 of the consolidated financial statements.

4 Debtors

	2012 £'000	2011 £'000
Amounts owed by subsidiary undertakings	**7,769**	8,067
Other debtors	**3**	–
	7,772	8,067

5 Creditors: amounts falling due within one year

	Notes	2012 £'000	2011 £'000
Other liabilities – contingent consideration	7	–	400

6 Creditors: amounts falling due after more than one year

	Notes	2012 £'000	2011 £'000
Other liabilities – contingent consideration	7	–	160

7 Maturity of financial liabilities

	Notes	2012 £'000	2011 £'000
In one year or less			
Other liabilities – contingent consideration	5	–	400
		–	400
Within one to two years			
Other liabilities – contingent consideration	6	–	160
		–	160
		–	560

Contingent consideration

The contingent consideration related to the acquisition of Realworld OO Systems Limited (now Geospatial Systems Limited) in 2011 which is further described in note 26 in the consolidated financial statements.

8 Share capital

	2012 Number	2011 Number	2012 £'000	2011 £'000
Allotted, called up and fully paid				
Ordinary shares of £0.02 each	**21,919,744**	21,657,698	**438**	433

A description of the movements in share capital in the year is given in note 21 of the consolidated financial statements.

9 Reserves

	Share premium £'000	Share-based payment reserve £'000	Profit and loss reserve £'000
Balance at 1 January 2012	22,031	591	457
Loss for the year	–	–	(122)
Reserve credit for equity-settled share-based payment	–	63	–
Premium on new share capital	220	–	–
Change in year	220	63	(122)
Balance at 31 December 2012	**22,251**	**654**	**335**

10 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Loss for the year	**(122)**	–
Reserve credit for equity-settled share-based payment	**63**	45
Issue of new share capital	**5**	129
Premium on new share capital	**220**	7,968
Share issue costs	–	(487)
Net change in shareholders' funds	**166**	7,655
Shareholders' funds at 1 January	**23,512**	15,857
Shareholders' funds at 31 December	**23,678**	23,512

Ubisense Group plc

(Incorporated and registered in England and Wales with registered number 05589712)

Notice is hereby given that the Annual General Meeting ("Meeting") of Ubisense Group plc (the "Company") is to be held at the offices of FTI Consulting, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on 19th April 2013 at 10.00 am.

You will be asked to consider and vote on the resolutions below. Resolutions 1, 2, 3, 4 and 5 will be proposed as ordinary resolutions and resolution 6 will be proposed as a special resolution.

Ordinary business

Report and accounts

1. THAT the Company's annual accounts for the financial year ended 31st December 2012, together with the Directors' report and auditor's report on those accounts, be received and adopted.

Re-election of Directors

2. To re-elect Professor Andrew Hopper CBE, who retires by rotation and offers himself for re-appointment by general meeting, as a Director of the Company.

3. To re-elect Dr. Richard Newell, who retires by rotation and offers himself for re-appointment by general meeting, as a Director of the Company.

Re-appointment of auditors

4. THAT Grant Thornton UK LLP be reappointed as the Company's auditors to hold office from the conclusion of this meeting until the conclusion of the next meeting at which accounts are laid before the Company and that the Directors be authorised to agree the remuneration of the auditors.

Special business

Issue of Ordinary Shares

5. THAT the Directors be hereby generally and unconditionally authorised and empowered pursuant to and in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares and/or grant rights to subscribe for or to convert any security into shares ("Rights"):

   a. up to an aggregate nominal value of £146,172 (being the nominal value of approximately one third of the issued share capital of the Company); and

   b. up to an aggregate nominal value of £30,000 in connection with options granted in accordance with the Company's articles of association prior to the Company's admission to trading on the AIM Market of the London Stock Exchange,

   such authorities to expire on the earlier of the next Annual General Meeting of the Company held after the date on which this resolution becomes unconditional and the date 15 months after the passing of this resolution, save that the Company may at any time before such expiry make any offer(s) or enter into any agreement(s) which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares or grant Rights in pursuance of any such offer(s) or agreement(s) as if the authority conferred hereby had not expired. This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot shares or grant Rights but without prejudice to any allotment of shares or grant of Rights already made, offered or agreed to be made pursuant to such authorities.

6. THAT subject to and conditional upon the passing of resolution number 5 above, the Directors be and are hereby generally authorised in accordance with Section 570 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash as if Section 561(1) of the Act did not apply to any such allotment, provided that this authority shall be limited to:

   a. the allotment of equity securities in connection with an offer by way of rights in favour of the holders of equity securities in proportion (as nearly as may be possible) to the respective number of ordinary shares of £0.02 each held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems in respect of overseas holders or otherwise;

   b. the allotment of equity securities in connection with options granted in accordance with the Company's articles of association prior to the Company's admission to trading on the AIM Market of the London Stock Exchange up to an aggregate nominal value of £30,000; and

   c. the allotment of equity securities (otherwise than pursuant to sub-paragraphs (a) and (b) above) up to a maximum aggregate nominal value of £65,777 (being the nominal value of approximately 15%. of the issued share capital of the Company),

   and this authority shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company held after the date on which this resolution becomes unconditional and the date 15 months after the passing of this resolution save that the Company may make any offer(s) or enter into any agreement(s) before such expiry which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer(s) or agreement(s) as if the authority conferred hereby had not expired. This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot equity securities but without prejudice to any allotment of equity securities already made, offered or agreed to be made pursuant to such authorities.

By order of the Board

Gordon Campbell
Company Secretary

Ubisense Group plc
St Andrew's House
St. Andrew's Road
Chesterton
Cambridge
CB4 1DL
18th March 2013

Notes to the notice of Annual General Meeting

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at:

   - at the time which is 48 hours prior to the Meeting; or,
   - if this Meeting is adjourned, at the time which is 48 hours prior to the adjourned meeting,

   shall be entitled to attend and vote at the Meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

3. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.

4. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. Failure to specify the number of shares to which each proxy appointment relates or specifying more shares than the number of shares held by you at the time set out in note 1 above will result in the proxy appointments being invalid.

6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxies using hard copy form

7. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

   To appoint a proxy using the proxy form, the form must be:

   - completed and signed;
   - sent or delivered to The Company Secretary, Ubisense Group plc, St. Andrew's House, St. Andrew's Road, Chesterton, Cambridge CB4 1DL or emailed to The Company Secretary at companysecretary@ubisense.net; and
   - received by The Company Secretary no later than 48 hours prior to the time set for the start of the Meeting.

   CREST members should use the CREST electronic proxy appointment service and refer to note 8 below in relation to the submission of a proxy appointment via CREST.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

   In each case the proxy appointment must be received not less than 48 hours before the time for the holding of the Meeting or adjourned meeting together (except in the case of appointments made electronically) with any authority (or notarially certified copy of such authority) under which it is signed.

Appointment of proxies through CREST

8. As an alternative to completing the hardcopy proxy form, CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA 10) by not later than 48 hours prior to the time appointed for the Meeting or adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

10. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact The Company Secretary, Ubisense Group plc, St. Andrew's House, St. Andrew's Road, Chesterton, Cambridge CB4 1DL.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

11. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to The Company Secretary, Ubisense Group plc, St. Andrew's House, St. Andrew's Road, Chesterton, Cambridge CB4 1DL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by The Company Secretary not less than 48 hours before the time for holding the Meeting or adjourned meeting.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

12. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Issued shares and total voting rights

13. As at 5.00 p.m. on date before the date of this notice, the Company's issued share capital comprised 21,925,786 ordinary shares of £0.02 each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00 p.m. on the date before the date of this notice is 21,925,786.

Nominated persons

14. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):

You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Meeting.

If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.

Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

Communication

15. Except as provided above, members who have general queries about the Meeting should use the following means of communication:

- calling The Company Secretary on +44 (0) 1223 535165;
- or calling our shareholder helpline on 0870 707 1131 or +44 (0) 870 707 1131 from outside of the UK. Lines are open Monday to Friday, 9.00 a.m. to 5.00 p.m.; or
- emailing The Company Secretary at companysecretary@ubisense.net

You may not use any electronic address provided either:

- in this notice of Annual General Meeting; or
- any related documents (including the proxy form),

to communicate with the Company for any purposes other than those expressly stated.

Advisers

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Ubisense Group plc
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Fax: +44 (0)1223 535 167
Website: www.ubisense.net

Public Relations Advisors
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26 Southampton Buildings
London WC2A 1PB

Nominated Advisors and Brokers
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88 Wood Street
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Lawyers to the Company
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