
# Bringing clarity to complex operations

Ubisense Group Plc
Annual Report 2013

# We're the world's foremost specialists in location intelligence – whether we're bringing previously inaccessible efficiencies to manufacturing processes or revolutionising the management of huge networks in the utilities sector.

## Our mission:

**We transform our customers' business processes by applying our world-class location intelligence expertise, embedded in innovative solutions that bring clarity and control to complex operations**

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**Visit our website for further information on our company and products at ubisense.net**

# Highlights

## Financial highlights

**Customer bookings**
+32.1%
**£32.5m**

**Order book**
+75.5%
**£17.9m**

**Group revenue**
2012: £24.3m
**£27.0m**

**Recurring revenues**
2012: 25.1%
**26.5%**

**Adjusted EBITDA***
2012: £1.2m
**£1.1m**

**Product development**
2012: £3.2m
**£4.0m**

**Cash and cash equivalents**
2012: £2.7m
**£4.0m**

**Bank facility**
£3.5m drawn
**£5.0m**

## Strategic highlights

Broadening reach of addressable market in Japan and South Korea with acquisition of Geoplan

Customer bookings in the year up 32.1% to £32.5 million, including multi-year contracts

Order book up 75.5% year on year to £17.9 million as at 31 December 2013 and continues to provide good revenue visibility

Appointment as Google enterprise partner

## Operational highlights

Product certification granted in Japan and South Korea enabling deployment of RTLI solutions

Significant orders during the period from leading European telecoms network operator, the largest US agricultural manufacturer, a top-five US telecoms operator and a leading US energy utility

All three German automotive groups deploying Ubisense Smart Factory System in a step and repeat cycle

Robert Parker appointed Chief Financial Officer on 10 February 2014

* 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.

** Earnings measured as profit for the period excluding amortisation on acquired intangible assets, share-based payments charge and non-recurring exceptional items such as acquisition and reorganisation costs.

# Chairman's statement

## The necessary investments and efforts we have made have allowed Ubisense to experience solid growth through major new strategic client wins, as the use of real-time location intelligence solutions is becoming increasingly widespread through many industries.

**Our aim is to deliver a single enterprise location intelligence platform to address all our customer base and target markets**

### Introduction

2013 was a busy year for the Group, driving forward our aim to be synonymous with enterprise location intelligence. We have seen significant developments in our strategy to transform our business to a single Real-time Location Intelligence (RTLI) solution, fully leveraging our product IP across our customer base. To strengthen this further and expand our global footprint, on 3 December 2013 we completed the acquisition of the Geoplan Interworks K.K. ("Geoplan") group of companies.

We are still in the early stages of the integration process but I am delighted with the progress to date and am excited by the potential we see in Asia over the next few years.

### Overview

Group revenue increased by 11.2% to £27.0 million and we achieved an adjusted EBITDA of £1.1 million. The Group's gross profit was £9.2 million, representing a gross margin of 34.2%. The Group has a robust balance sheet with net assets of £19.4 million, including cash and cash equivalents of £4.0 million.

During 2013 we experienced continued momentum across the business as we migrated to an RTLI solutions focused business, through the strengthening of key customer relationships, acquisition of new customers, improved market reach and our approach to product management. We have also ensured that our resources are fully focused on delivering our leading location intelligence technology for markets where we add the most value.

The necessary investments and progress we have made have allowed Ubisense to experience solid growth through major new strategic client wins, as the use of real-time location intelligence solutions is becoming increasingly widespread through many industries. Our year-end order book is up 75.5% year on year to £17.9 million – a significant achievement – and this continues to provide us with good revenue visibility going forward.

We have also delivered excellent progress and further market traction in the conversion of our consulting services customers into RTLI solutions customers. Our market-leading RTLI solutions offering is benefiting from the acceleration in enterprise acceptance as it allows customers across high-value manufacturing, utility and telecommunication sectors to achieve substantial improvements in efficiency and cost savings. Our reputation with all our customers continues to be one of value, reliability and exceptional service.

Our aim is to deliver a single enterprise location intelligence platform to address all of our customer base and target markets.

### Current trading and outlook

In the period since the year end, trading has been in line with the Board's expectations. Ubisense has entered 2014 with increasing momentum in the business and we are extremely well positioned to capitalise on the opportunities we see.

We will continue to pursue 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 recovery is still in an early stage, we are able to provide market-leading innovative solutions for our customers and we begin 2014 with a robust order book and pipeline which gives us confidence for the future.

## Conclusion

On behalf of the Board, I would like to thank our customers, partners and employees for their support in making 2013 such a strong year for the Ubisense Group. I look ahead with confidence for the 2014 financial year.

**Andy Hopper, CBE**
**Chairman**
**24 March 2014**

> "Our market-leading RTLI solutions offering is benefiting from the acceleration in enterprise acceptance as it allows customers across high-value manufacturing, utility and telecommunication sectors to achieve substantial improvements in efficiency and cost savings."

# Our business overview

## Continuous monitoring of progress

**Benefit:** real-time assessment of operational delay when progress deviates from plan, supporting WIP re-planning across sites.

# Reliability

AIRBUS

## Problem

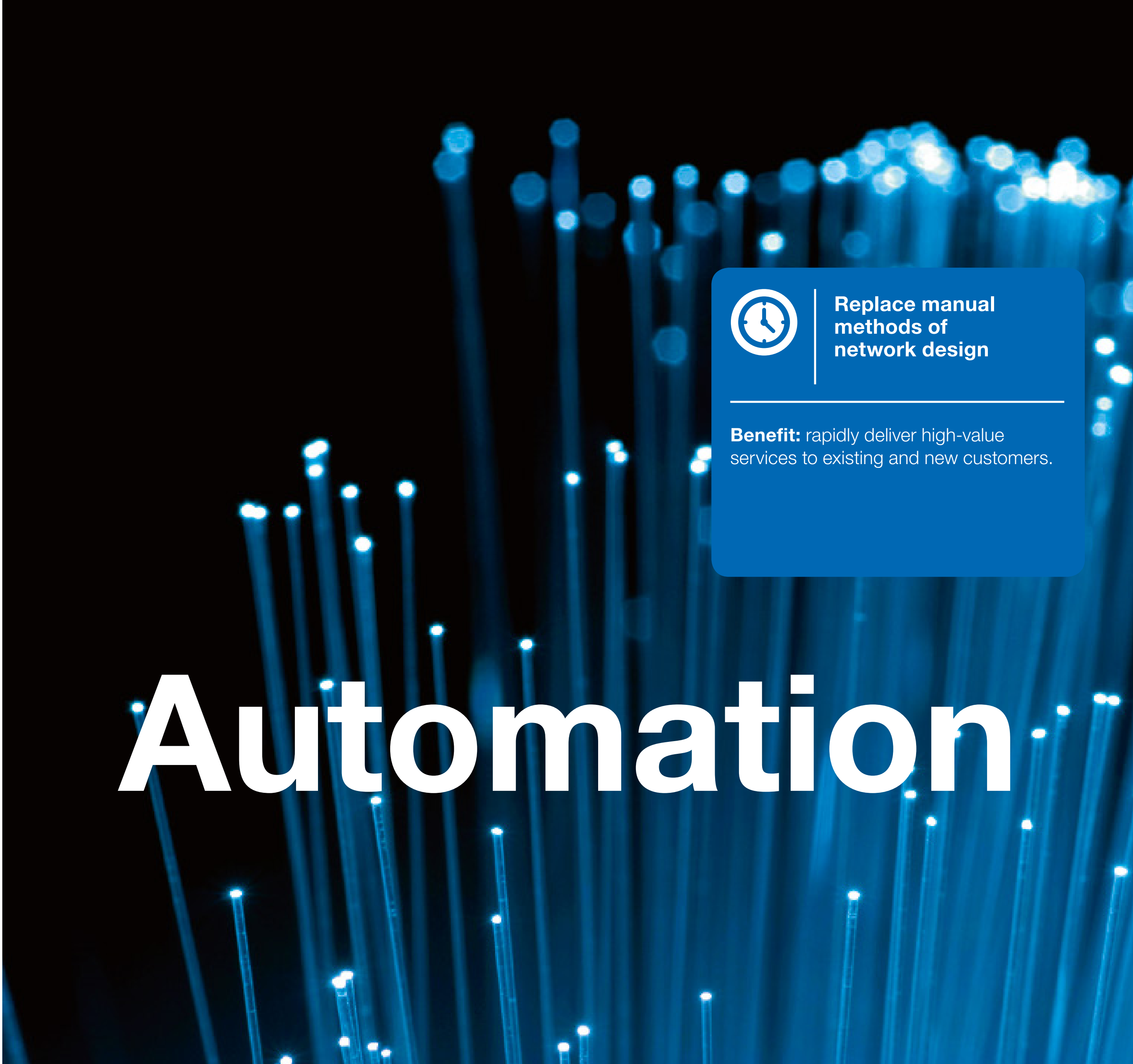
Across the major A380 assembly factories, the tracking and reporting of status of the industrial process was done via various paper-based processes. Central management received data from different sources, which provided various views of the operational status. To ensure components arrive at the final assembly line at the right times from the distributed plants an improved process tracking system was required.

## Solution

By precisely tracking Ubisense tags on components, the Smart Factory System provides Airbus with real-time work in progress monitoring. This includes accurate tracking of actual progress per component, a real-time visual display of component locations and synchronised information for the components of every single aircraft. Instantaneous alerts are given when process deviations occur, including missed steps and exceeded step cycle times.

## Result

Automatic work in progress (WIP) monitoring of components has reduced delays in reporting. The ability to identify the quantity of WIP and to impact assessment of operational delays across plants has improved.



**Replace manual methods of network design**

**Benefit:** rapidly deliver high-value services to existing and new customers.

# Automation

swisscom

## Problem

One of the most prevalent challenges faced by telecommunications operators today is how to roll out new network technologies required to deliver high bandwidth services to their enterprise and residential customers in an expedited and cost-effective manner to remain competitive.

## Solution

Building on many years supplying support and software consultancy services for Swisscom's manual planning engineering and inventory tool, Ubisense delivered new design automation tools for Swisscom to trial.

## Result

The Proof of Concept was a complete success. Ubisense and Swisscom are now taking the design solution into production as a key component of the new fibre rollout plan that started at the end of 2013. Swisscom will be able to roll out FTTS to deliver high bandwidth services to existing and new customers, and Swisscom customers will benefit by being able to watch IPTV on multiple devices in parallel, including 3D and UHD (4k) content.

# Our business overview continued

**Automate error-proofing for critical assembly operations**

**Benefit:** reduction in defects on safety-critical tightening operations during vehicle assembly.

# Quality

## Problem

Because multiple vehicle models are produced on the same assembly line, power tool settings must be constantly adapted for the specific model entering a work station. Previously, to load the specific tool settings a vehicle's VIN was identified via a barcode scan upon entry to a work station. Manual barcode scans for VIN identification were taking up to six seconds per tool operation across 150 tool stations for 1,100 cars per day.

## Solution

By precisely tracking Ubisense tags on vehicles and tools, the system provides BMW with efficient and reliable tool control through automatic identification of a vehicles VIN, eliminating the barcode scans and automatically loading tool programs and torque settings for each vehicle identified.

## Result

Real-time, automatic tool control has reduced non-value added work across the assembly line and contributes to error prevention. Hundreds of hours per day have been saved due to the elimination of manual barcode scans.

# Compliance

**Demonstrate conformance to safety standards**

**Benefit:** automate surveying underground gas network and facilities, automatically tracking progress and storing data as auditable records to demonstrate compliance with standards.

UGI CORPORATION

## Problem

For a time, UGI Utilities used an electronic system to track its gas leak surveys across distribution system of approximately 12,000 miles of gas mains, until the company encountered a database replication issue. This issue forced UGI to revert back to a paper-based system, the process still used by most natural gas utilities.

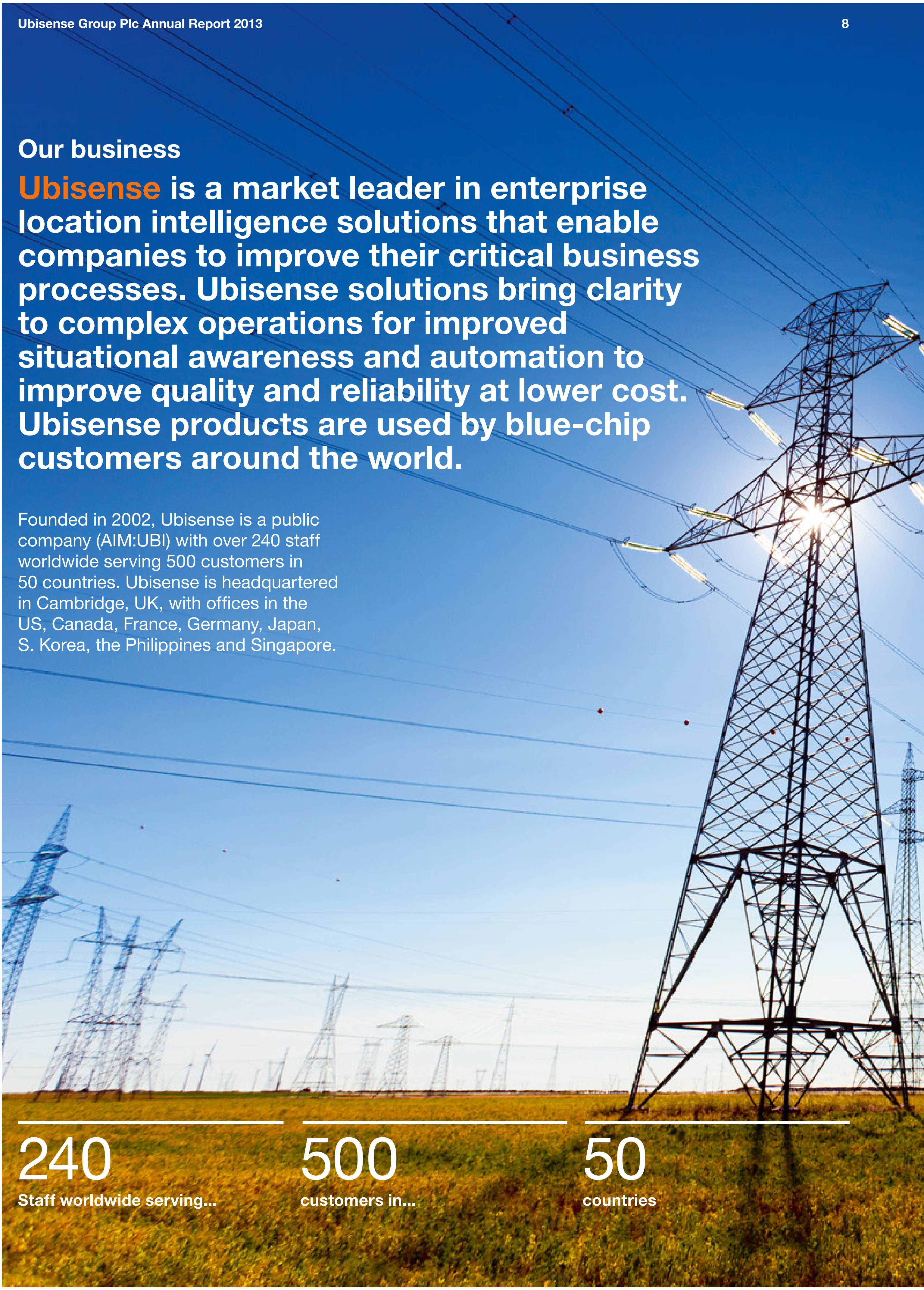
UGI needed an online survey tracking system with geospatial mapping capabilities that would not only detect natural gas leaks but also track the progress of the leak surveyors against the gas mains as mapped in a geographic information system (GIS).

## Solution

Ubisense provided UGI executives with a demonstration of VeroTrack, a gas leak detection system that highlights facilities surveyed and records gas readings automatically, eliminating the need to highlight paper maps and manually enter data. VeroTrack records gas detector readings and GPS coordinates automatically, and integrates with a GIS to create standardised reports and auditable records.

## Result

As a result of the Ubisense deployment, UGI's productivity has increased dramatically. Instead of surveying for seven hours and reporting for one, field surveyors are able to survey for the full eight hours and cover more ground.



## Our business

**Ubisense is a market leader in enterprise location intelligence solutions that enable companies to improve their critical business processes. Ubisense solutions bring clarity to complex operations for improved situational awareness and automation to improve quality and reliability at lower cost. Ubisense products are used by blue-chip customers around the world.**

Founded in 2002, Ubisense is a public company (AIM:UBI) with over 240 staff worldwide serving 500 customers in 50 countries. Ubisense is headquartered in Cambridge, UK, with offices in the US, Canada, France, Germany, Japan, S. Korea, the Philippines and Singapore.

240
**Staff worldwide serving...**

500
**customers in...**

50
**countries**

Our product offerings enable businesses across the high-value manufacturing, utility and telecommunications sectors to reduce costs and make significant improvements in efficiency.

## Our markets

### » Manufacturing

Manufacturers are striving to optimise their businesses using lean production techniques. The intelligent production systems underpinning these processes require real-time location intelligence about the movement of product and assets during the production steps. Ubisense Smart Factory products are used to construct a digital analogue of our customer's factories. A Smart Factory model contains both the physical factory spaces; assets, stations and products and the logical arrangement of the factory; process logic, inter-step dependencies and business rules. The result is a real-time dynamic 3D simulation of all critical manufacturing processes that enables Smart Factory to monitor, automate and optimise manufacturing operations.

### » Telecommunications

Ubisense products are used by over 40 telecoms network operators worldwide, providing business location intelligence for greater operational visibility. Our products fuse their enterprise system data with operational data for anytime, anywhere access to their critical, location-based data, making it easily accessible to anyone within their organisation. Ubisense products provide situational awareness and more effective process support facilitated by this greater operational visibility. Telecom and cable network operators are able to address issues faster and to deliver a better customer experience to their end users.

### » Utilities

Utilities supply and distribution network operators need to gather, process, maintain and keep up to date huge amounts network asset data. This enables them to meet customer satisfaction, commercial, health and safety, sustainability, and regulatory requirements. Ubisense offers the electricity, gas and water supply industries a range of cost-effective, user-friendly software solutions that add business location intelligence to their network asset management processes, providing many business benefits.

# Enterprise location intelligence

**Ubisense enterprise location intelligence products provide visualisation and control of complex processes. Applying them results in improved decision making, improved quality and improved throughput.**

By pin-pointing in space and time the precise positions and status of a customer's assets, be they tools and products in a manufacturing assembly facility or equipment and cables in a distribution network, we can transform the efficiency of their processes – and therefore the profitability of their business.

Our products gather real-time data from a variety of sources, including our own sensor networks, existing monitoring systems, enterprise information systems and cloud based systems. Our applications provide the business logic to improve the customer processes, updating information systems, control systems and mobile devices in real-time.

## 1 Solutions

Revenues driven from the Ubisense software product suites (Smart Factory, myWorld, Verotrack and Ubisense RTLS hardware), technical expertise and exclusive reseller arrangements. A solution sale will include a mixture of application software (licences in perpetuity and term-based), hardware, installation and commissioning services, and maintenance and support. Margins in any given period will vary depending upon the make-up and phase of the given set of Solutions being delivered. The Company sees this revenue stream as critical to driving the long term growth and profitability of the business.

## 2 Services

Revenues not involving the Ubisense product suites as defined above. These revenues are typically multi-year managed services contracts, consultancy and training.

The Company generally has good visibility on future revenue from Services and believes it is critical to driving customer loyalty and providing a customer base into which it can sell its Solutions.

# Chief Executive's review

## Our value proposition is, and remains, our main growth driver as customers are seeing clear return on investment from increased operational efficiencies and reduced costs in their operations.

**Implementing intelligent concepts through the development of unique IP is core to our product offering**

### Overview

The Group made exceptional progress in 2013, delivering on our stated strategy. In the year, we decided to bring together all of our leading location-based technologies into one converged offering in order to meet the increasing demands of our customers. Our single RTLI business allows the Company to benefit from the emerging trends of smart devices and the growth in cloud technologies.

The implementation of this strategy has allowed us to achieve pleasing growth in the year. We experienced growing awareness and increased deployment with a number of large manufacturers and network operators.

Our strategic objectives are as follows:

- continue to evolve as a solutions-based business with a services capability, developing IP licensed on perpetual or term basis to customers;
- develop additional software licence offerings for specific business problems that deliver ROI to customers and represent upsell opportunities and additional maintenance and support revenue;
- focus direct business on manufacturing, telecoms and utility enterprises – particularly automotive manufacturing, cable television and triple play operators as well as gas and electric utilities;
- drive step and repeat business in automotive manufacturing across new site locations where we have demonstrated business value in initial deployments;
- use channel partners to reach other vertical markets at low cost of sale with specific domain know-how and market access; and
- continue to innovate and provide a rewarding work environment to attract and retain talented staff.

### Business observations:

- We continue to see location as a key asset attribute for many critical business processes and the focal point for integration of enterprise data.
- In our telecoms and utility markets, new mobile-based capabilities are realising business opportunities for software products in field operations, where real-time data access and updates demonstrate improved business efficiency for the mobile workforce.
- In our manufacturing markets, we see opportunities to penetrate upstream and downstream around initial points of deployment as customers recognise the value of location.

Our value proposition is, and remains, our main growth driver as customers are seeing clear return on investment from increased operational efficiencies and reduced costs in their operations.

### Customer momentum

In the year, the growth momentum in our Solutions business continued, as we extended our product sales into our existing client base and leveraged these existing relationships. Our focus remained on our priority markets in high-value manufacturing and network operators, where we delivered year-on-year growth in revenues of 18%. Our RTLI solutions have strengthened our customer relationships as we continue to innovate and offer a growing range of applications to support their drive towards end-to-end location intelligence solutions across their whole business.

Ubisense products and solutions have now been installed in eight out of the top 15 auto manufacturers and we continue to penetrate the global automotive market with installations at more new plants in North America, Europe and South Korea. Crucially, in the year, our RTLS solution was authorised for certification for sale into Japan which, along with the development of the Smart Warehouse System by Daifuku for its large customer base, has opened up a large number of new opportunities and potential new customers.

During the year, we saw repeat orders from our existing customer base and won several new solutions contracts including major strategic wins at customers such as VW, Honda and Toyota and we have extended our installations at existing customers including Airbus, Aston Martin, BMW, Cummins, Daimler and John Deere.

We continue to deliver into telecoms and utility network operators, servicing both existing and new customers. We remain committed to this customer base and strongly believe that we will be able to further sell our enhanced RTLI solutions to them as a trusted supplier. We are pleased to report new customer wins with Swisscom, Central Hudson, Piedmont Gas and Kepco.

## Acquisitions

Geoplan was acquired for a maximum consideration of £3.4 million, with initial consideration of £2.3 million and £1.1 million being deferred. Of the initial consideration, £0.6 million consists of cash and the remainder Ubisense shares. Of the deferred consideration, £0.2 million has been paid as at 24 March 2014.

The acquisition of Geoplan contributed £0.7 million to revenues in the year. We are integrating the company into our existing business and operations are being consolidated, providing us with cross-selling opportunities and a strong presence in Japan to open up the manufacturing market there. We are delighted with the progress we have made so far in both Japan and South Korea and will look to take advantage of the vast opportunities this acquisition has brought to us across Asia.

We continue to look for acquisition opportunities to enhance our market penetration, geographical footprint and product portfolio.

“We continue to look for acquisition opportunities to enhance our market penetration, geographical footprint and product portfolio.”

## Strategic partnerships

Substantial progress was achieved with our strategic partners Atlas Copco, Google and our partnership with the Daifuku Corporation in Japan.

We remain committed to developing partnerships that deliver differentiated value propositions, leveraging each other’s expertise and relationships to provide substantial benefit for our joint customers.

## Products

Implementing intelligent concepts through the development of unique IP is core to our product offering and differentiates us from our competitors. We continue to invest heavily in research and development as well as extending our collaboration with university and research institute partners.

We have continued with the consolidation of current products into more market focused application suites such as Smart Factory, our flagship, end-to-end manufacturing solution. Feedback has been very positive and we are ultimately moving to a single enterprise location intelligence platform to address all our customers’ requirements.

Additionally we have focused on integration with other enterprise system platforms such as SAP, and this makes for more effective deployment for our customers as integration timescales and costs are much lower.

## Conclusion

By continuing to invest in our product suite and 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**
**24 March 2014**

# Financial review

## As a result of the record customer orders in the period, the order book as at 31 December 2013 stood at £17.9 million – a 75.5% increase year-on-year.

**The Group has a robust balance sheet with net assets of £19.4 million**

### Orders

2013 saw a number of major new contract awards and extensions to existing contracts, resulting in record new orders for the period of £32.5 million (2012: £24.6 million) including a number of multi-year managed services deals. £31.5 million of these orders were organic.

As a result of the record customer orders in the period, the order book as at 31 December 2013 stood at £17.9 million (2012: £10.2 million) – a 75.5% increase year on year. £14.7 million of the order book comes from the organic business. This continues the trend of an increasing order book and gives the Company good visibility on revenues into 2014 and beyond.

### Revenue

At the start of 2013, Ubisense reorganised into a single Real-time Location Intelligence (RTLI) business integrating all our leading location-based technologies driving to a single platform which we are increasingly converging. The RTLI strategy is outlined further in the Strategic Report. While we market, organise and report a single offering, Ubisense has two revenue streams which are serviced by a common cost base:

- Solutions – revenues driven from the Ubisense product suites (Smart Factory System, netSolutions, netPlanning, myWorld, Verotrack), technical expertise and exclusive reseller arrangements. A Solution sale will include a mixture of application software (licences in perpetuity and subscription based), installation and commissioning services, hardware and maintenance and support. Margins in any given period will vary depending upon the make-up and phase of the given set of solutions being delivered. The Company sees this revenue stream as critical to driving the long-term growth and profitability of the business.
- Services – revenues not involving the Ubisense product suites as defined above. These revenues are typically multi-year managed services contracts, consultancy and training. The Company generally has good visibility on future revenue from Services and believes it is critical to driving customer loyalty and providing a customer base into which it can sell its solutions.

Total revenues grew by 11.2% to £27.0 million (2012: £24.3 million). Of the total revenue for 2013, an incremental £0.7 million was contributed by the Geoplan acquisition made at the beginning of December 2013. Excluding Geoplan, organic revenue increased by 8.2% to £26.3 million.

Solutions revenue grew by 6.7% to £13.4 million (2012: £12.5 million). Services revenue grew by 15.9% to £13.6 million (2012: £11.8 million) primarily as a result of large contract wins in the US in the utility and telecoms markets. Recurring revenues, comprising managed services and maintenance and support, grew to £7.2 million (2012: £6.1 million) or 26.5% of total revenues (2012: 25.1%) as the installed base of products increases and more customers adopt our managed services offering.

The majority of our revenues relate to a small number of large deals, the timing of which is not solely within our control, and each can carry a significant impact on our results in any single reporting period.

### Gross margin

The gross margin reduced from 39.5% to 34.2% in 2013. This was the result of a number of factors: (i) an increase in Services revenue in the revenue mix, (ii) within those Services revenues a greater proportion was derived from lower margin data cleansing services which will ultimately allow us greater access to sell our solutions as a trusted partner, and (iii) our Solutions revenues, which are generally higher margin, were in part delivered using contractors to fill delivery capacity which has a direct impact on the margin.

## Operating expenses

Operating expenses of £10.9 million (2012: £10.4 million) increased by 4.8% year on year. Operating expenses includes sales and marketing, product marketing, product development, general and administration and foreign exchange. Gross expenditure on product development increased 26% to £4.0 million (2012: £3.2 million) reflecting increased investment in our flagship Smart Factory and myWorld products. Capitalised product development costs at £3.0 million (2012: £1.8 million) represented 76% (2012: 58%) of gross development spend whilst amortisation of the capitalised development costs was £1.2 million (2012: £0.9 million).

The Group incurred exceptional items of £0.8million, of which £0.7 million related to strategic Asia Pacific market entry costs comprising £0.5 million acquisition costs relating to Geoplan and £0.2 million relating to product certification costs in Japan and South Korea and the termination of our previous agent network in the region.

In addition, the Group incurred £0.1 million of costs, mainly comprising professional fees, in connection with an acquisition which did not proceed. The Board continues to evaluate suitable acquisition opportunities to enhance its geographical footprint, product offerings, delivery capacity and customer base.

## EBITDA and operating profit

Group adjusted EBITDA for the period was £1.1 million (2012: £1.2 million). To provide a better guide to underlying business performance adjusted EBITDA excludes share-based payment charges and exceptional items along with depreciation, amortisation, interest and tax from the measure of profit.

Both the operating loss of £1.6 million (2012: £0.8 million) and loss before tax of £1.7 million (2012: £0.7 million) include amortisation and depreciation charges of £1.9 million (2012: £1.4 million) which have increased as a result of the increased amortisation of capitalised product development costs, as well as the exceptional items noted above of £0.8 million (2012: £0.4 million).

## Interest and tax

Net interest payable for the period was £0.1 million (2012: £nil) as a result of drawing down on our HSBC bank loan.

The Group has a net tax expense of £0.2 million (2012: £0.1 million income), almost entirely a result of non-cash deferred tax on capitalised development costs and acquired intangible assets. Management's best estimate of the effective current tax rate is nil due to the availability of prior years' losses. The Group has substantial tax losses carried forward and expects to benefit from the Patent Box tax regime being introduced in the UK.

## EPS and dividend

Adjusted diluted loss per share was 3.5p (2012: 0.5p earnings). Reported basic and diluted loss per share was 8.9p (2012: 2.8p). The Board does not feel it appropriate at this time to commence paying dividends.

## Balance sheet, cash and cash flow

The Group has a robust balance sheet with net assets at 31 December 2013 of £19.4 million (31 December 2012: £18.9 million).

In August 2013, the Group agreed a £5.0 million three-year loan to provide future working capital replacing the previous £2.0 million facility negotiated in 2012 and drawn down in 2013. £3.5 million of the new loan was drawn as at 31 December 2013 (2012: £nil) of which £2.0 million was used to repay the original facility.

Cash and cash equivalents held in the balance sheet at 31 December 2013 were £4.0 million (31 December 2012: £2.7 million). With the bank loan outstanding of £3.5 million, net funds at 31 December 2013 were £0.5 million (31 December 2012: £2.7 million).

The main components to the gross cash increase of £1.3 million for the year (2012: £3.3 million decrease) were operating cash outflow of £0.8 million (2012: £0.8 million outflow), the cash consideration paid for Geoplan of £0.7 million in December 2013 (2012: £0.4 million outflow on prior acquisitions), the cash acquired with Geoplan of £2.5 million, capital investment in plant and equipment and intangibles including product development of £3.2 million (2012: £2.3 million) and the receipt of the new bank loan of £3.5 million (2012: £nil).

## Capital structure

The issued share capital at 31 December 2013 was 23,079,146 (December 2012: 21,919,744) ordinary shares of £0.02 each. The increase of 1,159,402 shares related to 759,809 shares issued as part of the consideration of acquiring Geoplan and 399,593 shares as a result of share option exercises by employees. In addition, 421,500 share options were granted to employees on 19 April 2013 at an exercise price of £2.055, being the share price at the time. The total number of unexercised share options at 31 December 2013 was 2,023,180.

**Robert Parker**
**Chief Financial Officer**
**24 March 2014**

# Strategic report

## As the Company's products become more generally accepted across its chosen industries, Ubisense expects to penetrate deeper into its customer base to deploy multiple applications in each site.

**Ubisense expects repeat business to have a more profitable product mix and a lower cost of sale which ultimately will drive up margins and profitability**

### Strategy and business model

Ubisense is a market leader in real-time location intelligence solutions which enable companies to optimise their business processes. By keeping track of key assets, Ubisense solutions bring clarity to complex location-based operations that facilitate improved human decision making whilst also improving quality, efficiency and reliability. Ubisense Real-time Location Intelligence Solutions are used by a number of blue-chip customers across the world, such as AGCO, Airbus, Aston Martin, BMW, Cablevision, Daimler, Deutsche Telekom, Duke Energy, John Deere, MINI and VW.

Ubisense is headquartered in Cambridge, UK, with offices in the US, Canada, France, Germany, Japan, South Korea, the Philippines and Singapore.

In recent years, there has been a significant demand from customers requiring a single solution which combines indoor and outdoor components as well as dynamic and static data. This overlap of our traditional Geospatial and RTLS businesses enabled us to integrate both divisions into a single Real-time Location Intelligence (RTLI) business that brings together all of our leading location-based technologies.

The enterprise acceptance of our RTLI solutions has been accelerated by several factors such as the consumerisation of maps led by Google, the proliferation of smart devices and the growth in cloud technologies. Ubisense's software products and services capability benefits from these trends, enabling enterprises across the high-value manufacturing, utility and telecommunications sectors to deliver significant improvements in efficiency and cost savings. This also opens up new, adjacent markets for Ubisense.

With the business reorganised, the strategy of the Group is to:

- continue to evolve as a Solutions-based business with Services capability;
- develop next-generation applications that deliver ROI to customers;
- focus direct business on manufacturing, telecoms and utility enterprises;
- drive step and repeat business in automotive manufacturing across new site locations;
- use channel partners to reach other vertical markets at low cost of sale; and
- continue to innovate and provide a rewarding work environment to attract and retain talented staff.

### Business review and future developments

#### Business development

A significant increase in customer bookings, over 30% year on year, validates our new strategy focused on real-time location intelligence and the investment we have made in our next-generation platforms and sales and marketing infrastructure.

Considerable effort and investment in key strategic accounts in both Europe and North America has resulted in Ubisense securing contracts with three major manufacturing customers with global presence and reach which will result in lower cost of sales and increased profitability going forward. Furthermore, the Group now has relationships with all three German auto manufacturers and is targeting repeat orders across these groups in the coming months.

It is still too early to see the momentum of our increased solution sales being reflected in the Group accounts, but on a regional basis we can start to see the delivery of our strategy.

Our European business shows the acceleration of Solutions revenues over Services and resultant increase in margins and profits whilst the Americas business is still transitioning and we look forward to the acceleration of its solutions revenues this year.

In our telecommunications and utility markets, new mobile technologies, embodied in our myWorld product, have opened up new business opportunities for our software products in real-time operational use, not traditionally an area of focus for us. Customer wins for the period included a leading European telecoms network operator, a top-five US telecoms operator and a leading US energy utility.

As the Company's products become more generally accepted across its chosen industries and markets, Ubisense expects to be able to penetrate deeper into its customer base to deploy multiple applications on each site. Its acquisition strategy aims to enhance the Company's product portfolio, geographical reach and the ability to service its customers from a local office. The Company expects repeat business to have a more profitable product mix and a lower cost of sale which ultimately will drive up margins and profitability.

### Partnerships

While our direct sales channel is receiving strong customer traction, our channel partners have also contributed to the strong customer bookings performance. Notably, we became an official enterprise partner of Google in the year.

Our channel partner relationships have resulted in an increase in the number of pipeline deals. This gives us confidence in achieving our growth goals for 2014. Furthermore, developments with partners such as Daifuku in Asia Pacific have increased our optimism with regards to the opportunities to significantly increase the Company's presence in this key market.

> "A significant increase in customer bookings, over 30% year-on-year, validates our new strategy focused on real-time location intelligence and the investment we have made in our next-generation platforms and sales and marketing infrastructure."

## 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 £1.1 million (2012: £1.2 million). The Group also monitors the order pipeline and cash balances. At the close of the year the outstanding order book totalled 69% of annual sales (2012: 47%). The closing cash balance for the Group was £4.0 million (2012: £2.7 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 Executive Management Team review strategy and risks to the business regularly. Where possible, processes are in place to monitor and mitigate the identified risks.

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.

# Strategic report continued

## The Group continues to invest in R&D, spending £4.0 million in its R&D programmes in the year (2012: £3.2 million)

### Principal risks and uncertainties continued

#### Technological risks continued

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.

#### 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 solutions. 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.

#### 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.

#### 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% hardware 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. Ubisense has strong customer relationships with considerable repeat business from a number of large international organisations.

In the financial year to 31 December 2013 the Group's ten largest customers accounted for 60% of the Group's revenue (2012: 67%), of which one customer accounted for in excess of 10% (2012: 2). 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.

#### Contracts

Some of the Group's commercial contracts include terms where revenues and/or invoicing are related to customer acceptance.

The Group's exposure under such contracts is review regularly by the Executive Management Team and the main Board.

#### Credit

The main credit risk is attributable to trade receivables owed by customers. As the majority of the Group's customers are very large, blue-chip utilities, telecoms and manufacturing companies, the risk of non-payment tends to be less of a traditional credit nature and more related to customer satisfaction.

Credit exposure by customer is reviewed regularly by the Executive Management Team and the main Board with provision made for doubtful receivables when there are circumstance which, based on experience, are evidence of a likely reduction in the recoverability of the receivable.

#### Bank covenants

In August 2013, the Group agreed a £5.0 million loan facility with HSBC Bank plc to provide future working capital capacity. The loan is repayable in three years and the outstanding balance at 31 December 2013 was £3.5 million.

The Group is required to meet certain financial criteria agreed as covenants for the bank loan. The financial measures are regularly reviewed against covenant requirements to ensure the Group's obligations can be met. All covenants tests during the year were met and all tests for the forthcoming twelve months are forecast to be met based on our annual operating plan and our latest rolling forecast.

## Research and development (R&D)

The Group continues to invest in R&D, spending £4.0 million in its R&D programmes in the year (2012: £3.2 million), of which £3.0 million (2012: £1.8 million) was capitalised. In the opinion of the Directors, these investments will maintain and generate significant revenues in future years.

## 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.

"The Group is dependent on a number of key contracts and customer relationships for its current and future growth and development. Ubisense has strong customer relationships with considerable repeat business from a number of large international organisations."

## Employee 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 and 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.

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

**Gordon Campbell**
**Company Secretary**
**24 March 2014**

Registered number: 05589712

# Board of Directors

## Professor Andrew Hopper CBE

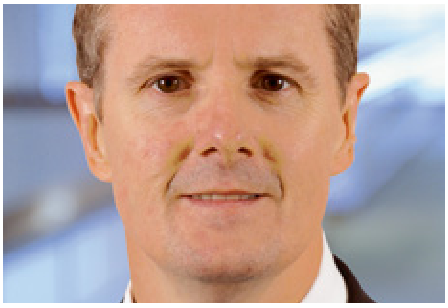
**Non-executive Chairman A R N**

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 N**

Richard initially trained as a mechanical engineer and has over 25 years of experience in the software industry. After he had 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.



## Robert Parker

**Chief Financial Officer A R N**

Robert is a Chartered Accountant with more than 25 years' experience in senior finance roles across multiple sectors. Most recently Robert was CFO of the Optitune Group, a Finnish cleantech company. Robert has held senior positions with Sumitomo Electric Europe Ltd, Eircom UK, National Grid, and Immedia.

## Board Committee Membership

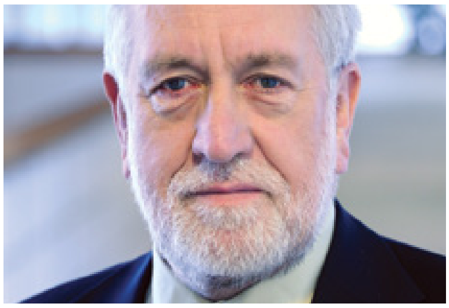
**A – Audit Committee**
**R – Remuneration Committee**
**N – Nominations Committee**

## Peter Harverson
### Non-executive Director R 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. Subsequently he became Director of Services Sales – EMEA with a charter to develop new areas of business, including professional services. Peter retired from Sun Microsystems in December 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 advisor to Cambridge IP Limited.

## J Keith Lomas
### Non-executive Director A R N

Keith has more than 20 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 A N

Dick has spent over 45 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 and Digital Spring Limited.

## Dr Robert Sansom
### Non-executive Director R N

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 A R N

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 1 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, Digital Barriers plc and KBC Advanced Technologies 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 31 December 2013.

## 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 2p 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.

## Directors

The Directors, who served throughout the year except as noted, were as follows:

G M Campbell (resigned 10 February 2014)

R T Green

P G Harverson

Prof A Hopper

J K Lomas

R G Newell

R Sansom

P Taylor

R G Parker was appointed on 10 February 2014.

## Board changes

In February 2014, after ten years at Ubisense, Gordon Campbell, Chief Financial Officer, notified the Board of his intention to step down from his role. Gordon Campbell has made a significant contribution to the growth and development of the Group, including listing on AIM, and this will continue in a new role responsible for mergers and acquisitions and post-acquisition integration.

On 10 February 2014, Robert Parker was appointed as CFO of Ubisense Group Plc. Robert Parker joins Ubisense from Optitune plc where he had been CFO since 2012. Robert Parker brings extensive experience in both the strategic development and operational management of high growth, multicultural businesses. He has a proven track record of driving organic growth, executing M&A and raising finance in both the private and public markets.

## Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group Plc, at 31 December 2013 and 31 December 2012 are set out below:

There has been no change in the interests set out below between 31 December 2013 and 24 March 2014.

Paul Taylor and Robert Parker hold no shares as at 24 March 2014.

## 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.

## Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 22 to 24 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.

## Dividends

The Directors do not recommend payment of a dividend for the year (2012: £nil).

## Auditors

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

## Substantial shareholdings

On 24 March 2014, 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 | 10.80% |
| Richard Green | 1,619,289 | 7.02% |
| FIL Investment International | 1,344,322 | 5.82% |
| NFU Mutual Investment Managers | 1,155,000 | 5.00% |
| David Theriault | 807,000 | 3.50% |
| Threadneedle Investments | 805,939 | 3.49% |
| BlackRock Investment Management | 793,495 | 3.44% |
| Unicorn Asset Management | 786,800 | 3.41% |
| Ruffer LLP | 729,115 | 3.16% |
| Amati Global Investors | 715,691 | 3.10% |

## Annual General Meeting

The Annual General Meeting of the Company is due to take place at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London EC1A 4HD on 15 May 2014 at 1.00pm.

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 64 to 68 of this document. Resolutions 1, 2, 3, 4, 5 and 6 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 7 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 ended 31 December 2013.

### Re-election of directors (resolutions 2, 3 and 4)

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, Keith Lomas and Dr Robert Sansom will retire and stand for re-election as Directors. Having considered the performance of and contribution made by Keith Lomas and Robert Sansom, 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.

In addition, the Company's Articles of Association require any Director who has been appointed to the Board since the date of the Company's last Annual General Meeting, to retire from office and seek re-election at the AGM. Accordingly, Robert Parker, who was appointed to the Board on 10 February 2014, will retire and stand for re-election as a Director at the AGM.

### Re-appointment and remuneration of auditors (resolution 5)

Resolution 5 proposes the re-appointment 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 6 and 7)

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 £166,791 (being the nominal value of approximately one-third of the current issued share capital of the Company).

The Company is also seeking a limited authority to generally disapply pre-emption rights in relation to an issue of shares for cash. This limited authority is only being sought in respect of up to an aggregate nominal value of £75,055 (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.

It is considered prudent and is widely accepted practice amongst quoted companies to maintain general authorities such as these so as to enable the Directors to take advantage of opportunities to develop the Company's business.

Resolutions 6 and 7 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 AIM of the London Stock Exchange.

Resolution 6 provides for the general authority to allot and issue shares under Section 551 of the Companies Act 2006 and resolution 7 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**
**24 March 2014**
**Ubisense Group Plc**

Registered number: 05589712

Governance

| | 2013 Number | 2012 Number |
|---|---|---|
| Gordon Campbell | **87,987** | 87,987 |
| Richard Green | **1,619,289** | 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 | **5,182,179** | 5,105,901 |

# Corporate governance report

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

The Directors believe that effective corporate governance, appropriate to the Group considering its size and stage of development, will assist in the delivery of corporate strategy, the generation of shareholder value and the safeguarding of shareholders' long-term interests. We do not comply with the UK Corporate Governance Code June 2012 ("the Code"). However, the Directors are committed, wherever it is reasonably practicable, to ensure that the Group is managed in accordance with the principles set out in the Code.

## Composition of the Board

The Board comprises the Non-executive Chairman, five Non-executive Directors and two Executive Directors. Biographical details of all members of the Board are set out on pages 18 and 19.

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

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

## Board committees

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

## Summary of Board meeting attendance in 2013

The Board is expected to meet regularly on a formal basis ten times a year. 20 Board meetings were held in 2013. Attendance at the meetings was as follows:

| | Scheduled meetings | Additional meetings | Total meetings attended |
|---|---|---|---|
| Gordon Campbell | 10 (11) | 8 (9) | 18 (20) |
| Richard Green | 11 (11) | 9 (9) | 20 (20) |
| Peter Harverson | 11 (11) | 9 (9) | 20 (20) |
| Andrew Hopper | 11 (11) | 7 (9) | 18 (20) |
| J Keith Lomas | 10 (11) | 8 (9) | 18 (20) |
| Richard Newell | 10 (11) | 7 (9) | 17 (20) |
| Robert Sansom | 8 (11) | 8 (9) | 16 (20) |
| Paul Taylor | 10 (11) | 7 (9) | 17 (20) |

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

## Summary of committee membership

| | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|
| Peter Harverson | — | Yes | Chair |
| Andrew Hopper | Observer | Yes | Observer |
| J Keith Lomas | Yes | Observer | Yes |
| Richard Newell | Yes | Yes | — |
| Robert Sansom | — | Chair | Yes |
| Paul Taylor | Chair | Observer | Yes |
| Gordon Campbell | Observer | Observer | Observer |
| Richard Green | — | Observer | — |

## Summary of committee meeting attendance

| | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|
| Peter Harverson | — | 2 (2) | 4 (4) |
| Andrew Hopper | 1 (3) | 2 (2) | 1 (4) |
| J Keith Lomas | 3 (3) | 2 (2) | 4 (4) |
| Richard Newell | 3 (3) | 2 (2) | — |
| Robert Sansom | — | 2 (2) | 4 (4) |
| Paul Taylor | 3 (3) | 2 (2) | 3 (4) |
| Gordon Campbell | 3 (3) | 1 (2) | 3 (4) |
| Richard Green | — | 2 (2) | — |

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

The role of each Committee is described in more detail on page 24.

# Corporate governance report continued

## 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 advisors. 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 twice on a formal basis. The Committee is expected to meet formally twice a year.

## Remuneration Committee

The Remuneration Committee has responsibility for the following matters:

- 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. The Directors acknowledge their responsibilities for the Group's system of internal control and for reviewing its effectiveness. The principal features of the system of internal financial controls are:

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

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

# Statement of Directors' responsibilities

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

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

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

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

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors 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 31 December 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and 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 25, 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 Financial Reporting Council'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 31 December 2013 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 Strategic Report and 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 matters where under the Companies Act 2006 requires us to report to you if, in our opinion:

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

### Other matter

We have reported separately on the parent company financial statements of Ubisense Group Plc for the year ended 31 December 2013.

**Paul Naylor**
**Senior Statutory Auditor**
**for and on behalf of Grant Thornton UK LLP**
**Statutory Auditor, Chartered Accountants**
**Cambridge**
**24 March 2014**

# Consolidated income statement
## for the year ended 31 December 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Revenue** | 5 | 27,002 | 24,292 |
| Cost of revenues | | (17,761) | (14,690) |
| **Gross profit** | | 9,241 | 9,602 |
| Operating expenses | | (10,867) | (10,368) |
| **Operating loss** | | (1,626) | (766) |
| **Analysed as:** | | | |
| Gross profit | | 9,241 | 9,602 |
| Other operating expenses | | (8,100) | (8,445) |
| **Adjusted EBITDA** | | 1,141 | 1,157 |
| Depreciation | | (266) | (227) |
| Amortisation of acquired intangible assets | 13 | (313) | (257) |
| Amortisation of other intangible assets | | (1,332) | (953) |
| Share-based payments charge | 21.2 | (92) | (63) |
| Exceptional items | 9.2 | (764) | (423) |
| **Operating loss** | | (1,626) | (766) |
| Finance income | 8 | 10 | 38 |
| Finance costs | 8 | (103) | — |
| **Loss before tax** | 9 | (1,719) | (728) |
| Income tax | 10.1 | (219) | 90 |
| **Loss for the year** | | (1,938) | (638) |
| **Loss attributable to:** | | | |
| Equity shareholders of the Company | | (1,968) | (638) |
| Non-controlling interest | | 30 | — |
| | | (1,938) | (638) |
| **Loss per share attributable to the equity shareholders of the parent (pence)** | | | |
| Basic | 11 | (8.9p) | (2.8p) |
| Diluted | 11 | (8.9p) | (2.8p) |

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

## for the year ended 31 December 2013

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Loss for the year** | (1,938) | (638) |
| **Other comprehensive income:** | | |
| Items that may be reclassified subsequently to profit and loss | | |
| Exchange difference on retranslation of net assets and results of overseas subsidiaries | (203) | 33 |
| **Total comprehensive loss for the year** | (2,141) | (605) |
| **Attributable to:** | | |
| – Equity shareholders of the Company | (2,141) | (605) |
| – Non-controlling interest | — | — |
| **Total comprehensive loss for the year** | (2,141) | (605) |

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

## for the year ended 31 December 2013

| | Attributable to equity shareholders of the parent company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital £'000 | Share premium £'000 | Other reserves £'000 | Retained earnings £'000 | Subtotal £'000 | Non-controlling interest £'000 | Total £'000 |
| **Balance at 1 January 2012** | 433 | 22,031 | 510 | (3,736) | 19,238 | — | 19,238 |
| Loss for the year | — | — | — | (638) | (638) | — | (638) |
| Exchange difference on retranslation of net assets and results of overseas subsidiaries | — | — | 33 | — | 33 | — | 33 |
| **Total comprehensive loss for the year** | — | — | 33 | (638) | (605) | — | (605) |
| Reserve credit for equity-settled share-based payment | — | — | 63 | — | 63 | — | 63 |
| Issue of new share capital | 5 | — | — | — | 5 | — | 5 |
| Premium on new share capital | — | 220 | — | — | 220 | — | 220 |
| Transactions with owners | 5 | 220 | 63 | — | 288 | — | 288 |
| **Balance at 31 December 2012** | 438 | 22,251 | 606 | (4,374) | 18,921 | — | 18,921 |
| Loss for the year | — | — | — | (1,968) | (1,968) | 30 | (1,938) |
| Exchange difference on retranslation of net assets and results of overseas subsidiaries | — | — | (173) | — | (173) | (30) | (203) |
| **Total comprehensive loss for the year** | — | — | (173) | (1,968) | (2,141) | — | (2,141) |
| Reserve credit for equity-settled share-based payment | — | — | 92 | — | 92 | — | 92 |
| Non-controlling interest in new subsidiary | — | — | — | — | — | 704 | 704 |
| Issue of new share capital | 23 | — | — | — | 23 | — | 23 |
| Premium on new share capital | — | 1,799 | — | — | 1,799 | — | 1,799 |
| **Transactions with owners** | 23 | 1,799 | 92 | — | 1,914 | 704 | 2,618 |
| **Balance at 31 December 2013** | 461 | 24,050 | 525 | (6,342) | 18,694 | 704 | 19,398 |

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

A reconciliation of the components of other reserves is given in note 22.

# Consolidated statement of financial position

## as at 31 December 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 12 | **15,962** | 10,319 |
| Property, plant and equipment | 13 | **628** | 621 |
| Total non-current assets | | **16,590** | 10,940 |
| **Current assets** | | | |
| Inventories | 14 | **3,106** | 862 |
| Trade and other receivables | 15 | **11,547** | 10,302 |
| Cash and cash equivalents | 16 | **3,964** | 2,716 |
| Total current assets | | **18,617** | 13,880 |
| Total assets | | **35,207** | 24,820 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **(10,023)** | (5,246) |
| Total current liabilities | | **(10,023)** | (5,246) |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 10 | **(1,856)** | (653) |
| Bank loans | 18 | **(3,500)** | — |
| Other payables | 19, 25 | **(430)** | — |
| Total non-current liabilities | | **(5,786)** | (653) |
| Total liabilities | | **(15,809)** | (5,899) |
| **Net assets** | | **19,398** | 18,921 |

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Equity attributable to owners of the parent company** | | | |
| Ordinary share capital | 20 | **461** | 438 |
| Share premium | 20 | **24,050** | 22,251 |
| Other reserves | 22 | **525** | 606 |
| Retained earnings | | **(6,342)** | (4,374) |
| **Equity attributable to shareholders of the Company** | | **18,694** | 18,921 |
| **Non-controlling interests** | | **704** | — |
| **Total equity** | | **19,398** | 18,921 |

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 24 March 2014 and signed on its behalf by:

**Richard Green**
**Chief Executive Officer**
**Ubisense Group Plc**

**Robert Parker**
**Chief Financial Officer**

Registered Number: 05589712

# Consolidated statement of cash flows

## for the year ended 31 December 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Loss before tax** | | **(1,719)** | (728) |
| Adjustments for: | | | |
| Depreciation | 9, 13 | **266** | 227 |
| Amortisation | 9, 12 | **1,645** | 1,210 |
| Loss on the disposal of property, plant and equipment | 9 | **—** | 5 |
| Share-based payments charge | 6.2, 21.2 | **92** | 63 |
| Finance income | 8 | **(10)** | (38) |
| Finance costs | 8 | **103** | — |
| **Operating cash flows before working capital movement** | | **377** | 739 |
| Change in inventories | | **(639)** | 805 |
| Change in receivables | | **242** | (839) |
| Change in payables | | **(727)** | (1,691) |
| Cash used in operations before tax | | **(747)** | (986) |
| Net income taxes (paid)/received | | **(7)** | 203 |
| **Net cash flows from operating activities** | | **(754)** | (783) |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | 25 | **1,846** | (400) |
| Purchases of property, plant and equipment | | **(140)** | (492) |
| Proceeds on disposal of property, plant and equipment | | **—** | 1 |
| Expenditure on intangible assets | | **(3,085)** | (1,849) |
| Interest received | | **10** | 38 |
| **Net cash flows from investing activities** | | **(1,369)** | (2,702) |
| **Cash flows from financing activities** | | | |
| Proceeds of borrowings | | **3,500** | — |
| Interest paid | | **(92)** | — |
| Proceeds from the issue of ordinary share capital | | **111** | 225 |
| **Net cash flows from financing activities** | | **3,519** | 225 |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,396** | (3,260) |
| Cash and cash equivalents at start of period | | **2,716** | 6,034 |
| Exchange differences on cash and cash equivalents | | **(148)** | (58) |
| **Cash and cash equivalents at end of period** | 16 | **3,964** | 2,716 |

The notes on pages 33 to 59 are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

## for the year ended 31 December 2013

### 1 General information

Ubisense Group Plc ("the Company") and its subsidiaries (together, "the Group") deliver mission-critical location-based smart technology which enables companies to optimise their business processes.

The Company is a public limited company which is listed on the AIM of the London Stock Exchange (UBI) and is incorporated and domiciled in the United Kingdom. The value of Ubisense Group Plc shares, as quoted on the London Stock Exchange plc at 31 December 2013, was 246.0p per share (31 December 2012: 230.0p).

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

The Group has its main operations in the UK, US, Canada, France, Germany, Japan, South Korea, Singapore and the Philippines and sells mainly in North America, Europe and Asia. The Group legally consists of twelve companies headed by Ubisense Group Plc (UK). A full list of subsidiaries is given in note 24 of the financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2014.

### 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 1 January 2013.

During 2013, the Group has applied several new revised and amended standards and interpretations which became effective in the year: IFRS 13 "Fair Value Measurement", the Annual Improvements to IFRS and IAS 1 (amended) "Presentation of Items of Other Comprehensive Income". The Group has early adopted "Recoverable Amount Disclosures for Non-Financial Assets" (Amendments to IAS 36). Their adoption has not had a material impact on the disclosures and amounts reported. Otherwise the accounting policies used are the same as set out in detail in the report and accounts 2012 and have been applied consistently to all periods presented in these financial statements. 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 1 January 2014, 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.

#### Standards and interpretations not yet applied by the Group

The following new standards and interpretations, which are yet to become mandatory, have not been applied in the Group's financial statements.

» IFRS 10 "Consolidated Financial Statements" (effective date financial year commencing on/after 1 January 2014).

» IAS 27 (revised) "Separate Financial Statements" (effective date financial year commencing on/after 1 January 2014).

» Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (effective date financial year commencing on/after 1 January 2014).

» Amendments to IFRS 10 "Transition Guide" (effective date financial year commencing on/after 1 January 2014).

» Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" (effective date financial year commencing on/after 1 January 2014).

All standards and interpretations are not expected to have any significant impact on the financial statements when applied.

### 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 it day-to-day working capital requirements through its bank facilities. The Group had cash of £4.0 million at the balance sheet date along with £1.5 million undrawn on its bank facility as well as an order book equivalent to 66% 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.

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

## 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.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of combination.

### Foreign currencies

#### (a) Functional and presentation currency

The functional currency of each Group entity is the currency of the primary economic environment in which each entity operates. The consolidated financial statements are presented in 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 "operating expenses". Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### (c) Consolidation

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

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

The Group is organised on a global basis as a single Real-Time Location Intelligence (RTLI) business. This is the basis of the Group's external market offering and internal organisational and management structure and is the primary way in which the Chief Executive Officer, who is the Chief Operating Decision Maker, receives financial information to assess Group performance. As a result, the Group has therefore determined that it has only one reportable segment as defined by IFRS 8.

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

In addition, the Board and Management Team consider the business to have two revenue streams with different characteristics, Solutions and Services, which are generated from the same asset and cost base.

### 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.

## 3 Summary of significant accounting policies continued

### Revenue recognition continued

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

#### (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.

### 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.

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

## 3 Summary of significant accounting policies continued

### 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 life of current development projects is three years. Upon completion the assets are subject to impairment testing.

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

### Other intangible assets

Intangible assets that are purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost and amortised on a straight-line basis over their useful economic life which is typically three to five 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 operating expenses in the income statement. The useful economic lives of the intangible assets recognised on acquisition are as follows:

» Software products recognised on acquisition: three years

» Customer relationships recognised on acquisition: five to ten years

» Order backlog: based on contract life recognised on acquisition, typically less than one year

## 3 Summary of significant accounting policies continued

### 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: five to eight years, or period of the lease if shorter
- Computer equipment: three years
- Demonstration equipment: one 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 operating expenses.

### Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested 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.

### 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.

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

### Share capital and share premium

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

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

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

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 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 10.0% and 14.5% for this purpose. The carrying amount of goodwill at 31 December 2013 is £9,116,000. 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 31 December 2013 is £3.9 million.

### 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 31 December 2013 is £3.3 million.

### Inventories

The provision for obsolete, slow moving or defective inventory is based on management's estimation of the commercial life of inventory lines and is applied on a prudent basis. In assessing this, management takes into consideration the sales history 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.

### Contingent consideration

The Group initially estimates the amounts payable under "earn-out" plans to the former shareholders of acquired companies based on the business model produced at the time of acquisition. Earn-out clauses within acquisition agreements typically contain provisions for amounts payable to the former shareholders based on future financial performance. In order to calculate the expected future payments, the acquisition business model contains estimates of the future financial performance for the acquired business.

The post-acquisition performance and expected future performance of acquired companies is reviewed throughout the year. Any adjustments required to contingent consideration arising from a significant departure of financial performance from the original acquisition plan are made as required.

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

## 5 Segment information

IFRS 8 requires a "management approach" under which information in the financial statements is presented on the same basis as that used for internal management reporting purposes. As announced in September 2013, the Group is now organised on a global basis as a single Real-Time Location Intelligence (RTLI) business. This is the basis of the Group's external market offering and internal organisational and management structure and is the primary way in which the Chief Executive Officer, who is the Chief Operating Decision Maker, receives financial information to assess Group performance. As a result, the Group has therefore determined that it has only one reportable segment as defined by IFRS 8. The prior year disclosures have been restated to reflect these changes.

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

In addition, the Board and Management Team consider the business to have two revenue streams with different characteristics, Solutions and Services, which are generated from the same asset and cost base.

# 5 Segment information continued

## 5.1 Revenue by nature

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Solutions | 13,375 | 12,537 |
| Services | 13,627 | 11,755 |
| **Total revenues** | 27,002 | 24,292 |

In addition the Board and Management Team also review the revenues on a geographical basis, based around the regions where the Group has its significant subsidiaries or markets.

## 5.2 Geographical areas

The Group's revenue from external customers and information about its non-current assets (excluding goodwill and deferred tax) by geography are detailed below:

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| UK | 539 | 1,441 | 4,239 | 2,576 |
| Europe | 12,478 | 10,533 | 294 | 239 |
| Americas | 11,988 | 9,585 | 477 | 675 |
| Asia Pacific | 1,997 | 2,733 | 2,464 | — |
| | 27,002 | 24,292 | 7,474 | 3,490 |

Revenues from external customers in the Group's domicile, the UK, as well as its major markets, Europe, Americas 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 2013, revenues of £6.0 million (2012: £2.6 million) derived from one European customer and revenues of £1.1 million (2012: £2.6 million) from one Americas customer. There were no other customers in 2013 or 2012 who contributed in excess 10% of revenue.

# 6 Employee information

## 6.1 Employee numbers

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

| | Actual number of people as at 31 December | | Average monthly number of people | |
|---|---|---|---|---|
| By activity | 2013 Number | 2012 Number | 2013 Number | 2012 Number |
| Technical consultants | 130 | 93 | 97 | 96 |
| Sales and marketing | 40 | 32 | 34 | 37 |
| Research and development | 40 | 32 | 35 | 31 |
| Administration | 29 | 18 | 20 | 20 |
| | 239 | 175 | 186 | 184 |

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

### 6 Employee information continued

#### 6.1 Employee numbers continued

| By geography | Actual number of people as at 31 December 2013 Number | Actual number of people as at 31 December 2012 Number | Average monthly number of people 2013 Number | Average monthly number of people 2012 Number |
|---|---|---|---|---|
| United Kingdom | **53** | 48 | **51** | 51 |
| Europe | **54** | 55 | **56** | 58 |
| Americas | **72** | 68 | **71** | 71 |
| Asia Pacific | **60** | 4 | **8** | 4 |
| | **239** | 175 | **186** | 184 |

#### 6.2 Employee benefits

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Wages and salaries | | **13,152** | 12,286 |
| Social security costs | | **1,346** | 1,265 |
| Contributions to defined contribution pension arrangements | | **626** | 562 |
| Share-based payments | 21.2 | **92** | 63 |
| **Total aggregate employee benefits** | | **15,216** | 14,176 |

Included in the above are termination benefits of £nil (2012: £404,000) 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 twelve key management personnel (2012: 13). The compensation paid or payable to key management for employee services is shown below:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Short-term employee benefits** | | |
| Wages and salaries | **998** | 879 |
| Social security costs | **151** | 84 |
| Other benefits | **28** | 21 |
| | **1,177** | 984 |
| **Post-employment benefits** | | |
| Contributions to defined contribution pension arrangements | **49** | 52 |
| **Share-based payments** | | |
| Equity-settled share-based payments | **37** | 24 |
| **Total key management compensation** | **1,263** | 1,060 |

## 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 2013 £'000** | Total 2012 £'000 |
|---|---|---|---|---|---|---|---|
| Gordon Campbell* | 93 | 56 | 2 | 151 | 18 | **169** | 124 |
| Richard Green* | 132 | 116 | 3 | 251 | 16 | **267** | 201 |
| Peter Harverson | 15 | — | — | 15 | — | **15** | 15 |
| Andrew Hopper | 25 | — | — | 25 | — | **25** | 25 |
| J Keith Lomas | 15 | — | — | 15 | — | **15** | 15 |
| Richard Newell | 15 | — | — | 15 | — | **15** | 15 |
| Robert Sansom** | — | — | — | — | — | **—** | — |
| Paul Taylor | 15 | — | — | 15 | — | **15** | 15 |
| Total | 310 | 172 | 5 | 487 | 34 | **521** | 410 |

* 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 Year | Vests Years | Expires Year | Exercise price £ | Awards outstanding at 1 January 2013 Number | Granted during the year Number | Exercised during the year Number | Lapsed during the year Number | **Awards outstanding at 31 December 2013 Number** | Awards exercisable at 31 December 2013 Number |
|---|---|---|---|---|---|---|---|---|---|---|
| Gordon Campbell | 2010 | 2011–13 | 2020 | 0.140 | 120,500 | — | — | — | **120,500** | 120,500 |
| | 2011 | 2012–14 | 2021 | 1.050 | 32,500 | — | — | — | **32,500** | 21,667 |
| | 2012 | 2013–15 | 2022 | 2.125 | 40,000 | — | — | — | **40,000** | 13,333 |
| | 2013 | 2014–16 | 2023 | 2.055 | — | 40,000 | — | — | **40,000** | — |
| | | | | | 193,000 | 40,000 | — | — | **233,000** | 155,500 |
| Richard Green | 2010 | 2011–13 | 2020 | 0.140 | 76,278 | — | (76,278) | — | **—** | — |
| | 2011 | 2012–14 | 2021 | 1.050 | 100,000 | — | — | — | **100,000** | 66,667 |
| | 2012 | 2013–15 | 2022 | 2.125 | 60,000 | — | — | — | **60,000** | 20,000 |
| | 2013 | 2014–16 | 2023 | 2.055 | — | 60,000 | — | — | **60,000** | — |
| | | | | | 236,278 | 60,000 | (76,278) | — | **220,000** | 86,667 |
| Peter Harverson | 2010 | 2011–13 | 2020 | 0.140 | 91,333 | — | — | — | **91,333** | 91,333 |
| Andrew Hopper | 2010 | 2011–13 | 2020 | 0.140 | 20,278 | — | — | — | **20,278** | 20,278 |
| Richard Newell | 2010 | 2011–13 | 2020 | 0.140 | 1,056 | — | — | — | **1,056** | 1,056 |
| Total | | | | | 541,945 | 100,000 | (76,278) | — | **565,667** | 354,834 |

The 2013 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 31 December 2013 and 24 March 2014.

The market price of the Company's shares at the end of the financial year was £2.46. The range of market prices during the year was between £1.82 and £2.50.

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

## 7 Directors' remuneration and interests continued

### 7.2 Directors' interests – share options continued

Directors' gains on share options

| | Gain on exercise 2013 £'000 | Gain on exercise 2012 £'000 |
|---|---|---|
| Richard Green | 155 | — |

### 7.3 Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group Plc, at 31 December 2013 and 31 December 2012, were as follows:

| | 2013 Number | 2012 Number |
|---|---|---|
| Gordon Campbell | 87,987 | 87,987 |
| Richard Green | 1,619,289 | 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 |
| | 5,182,179 | 5,105,901 |

There has been no change in the interests set out above between 31 December 2013 and 24 March 2014.

## 8 Finance income and costs

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Interest income from cash and cash equivalents | 10 | 38 |
| **Finance income** | 10 | 38 |
| Interest payable – bank | (103) | — |
| **Finance costs** | (103) | — |
| **Net finance (costs)/income** | (93) | 38 |

## 9 Loss 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 loss before tax:

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Amortisation of acquired intangible assets | 12 | 313 | 257 |
| Amortisation of other intangible assets | 12 | 1,332 | 953 |
| Depreciation of owned property, plant and equipment | 13 | 266 | 227 |
| Loss on disposal of property, plant and equipment | | — | 5 |
| Operating lease rental charges – land and buildings | | 445 | 355 |
| Operating lease rental charges – other | | 135 | 124 |
| Inventory recognised as an expense | | 1,057 | 1,571 |
| Research and development costs expensed | | 946 | 1,312 |
| Net foreign currency (gains)/losses | | (153) | 153 |
| Exceptional items | 9.2 | 764 | 423 |
| Auditors' remuneration | 9.3 | 216 | 81 |

### 9.2 Exceptional items

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Strategic Asia Pacific market entry costs | 650 | — |
| Aborted acquisition costs | 114 | — |
| Reorganisation costs | — | 423 |
| | 764 | 423 |

During 2013, the Group incurred exceptional items of £764,000 of which £650,000 related to strategic Asia Pacific market entry costs comprising £464,000 acquisition costs relating to Geoplan and £186,000 costs relating to product certification costs in Japan and South Korea and the termination of the Group's previous agent network in the region. In addition, the Group incurred £114,000 costs, mainly comprising professional fees, in connection with an acquisition which did not proceed.

During 2012, the Group incurred reorganisation costs totalling £423,000 comprising mainly redundancy costs in order to integrate acquisitions made in 2011 and to centralise the research and development and sales and marketing functions.

### 9.3 Auditors' remuneration

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Fees payable to the Group's auditors for the audit of: | | |
| Parent company and consolidated financial statements | 16 | 14 |
| Financial statements of subsidiaries, pursuant to legislation | 91 | 43 |
| | 107 | 57 |
| Fees payable to the Group's auditors for other services: | | |
| Tax services | 26 | 15 |
| Corporate finance services | 75 | — |
| Other services | 8 | 9 |
| | 109 | 24 |
| **Auditors' remuneration** | **216** | **81** |

The auditors of Ubisense Group Plc are Grant Thornton UK LLP.

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

### 9 Loss before tax: analysis of expenses by nature continued

#### 9.3 Auditors' remuneration continued

During the year, the auditors were used for due diligence work as this was considered most beneficial to the Group due to the auditors' established knowledge and experience of the Group's activities. The auditors' independence and objectivity was safeguarded through the use of separate engagement teams. No services were provided pursuant to contingent fee arrangements.

### 10 Income tax

#### 10.1 Income tax recognised in the income statement

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | 2 | — |
| Foreign tax | 36 | 9 |
| Research and development tax credits – prior years | (177) | (203) |
| **Total current tax credit** | (139) | (194) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 358 | 104 |
| **Total deferred tax expense** | 358 | 104 |
| **Total income tax expense/(credit)** | 219 | (90) |

The tax expense (2012: credit) differs from the standard rate of corporation tax in the UK for the year of 23% (2012: 24%) for the following reasons:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Loss before tax** | (1,719) | (728) |
| Loss before tax multiplied by the standard rate of corporation tax in the UK of 23% (2012: 24%) | (395) | (175) |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | 219 | 21 |
| Accrued contingent consideration released not subject to tax | — | (38) |
| Utilisation of previously unrecognised tax losses | (96) | (259) |
| Tax losses for which no deferred tax asset was recognised | 708 | 832 |
| Tax unprovided in prior years | 38 | 9 |
| Research and development tax credits – prior years | (188) | (203) |
| Difference on tax treatment of share options | 74 | — |
| Differential on overseas tax rates | (149) | (233) |
| Remeasurement of deferred tax – change of rate | — | (58) |
| Other temporary differences | 8 | 14 |
| **Total income tax expense/(credit)** | 219 | (90) |

#### 10.2 Factors that may affect future tax charges

The Group has tax losses of £8.9 million (2012: £4.4 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 3 July 2012 and effective from 1 April 2013, the deferred tax balances have been remeasured. The UK Government has also announced a further reduction in the main rate of corporation tax to 21% effective from 1 April 2014 and has proposed a further reduction of 1% by 1 April 2015. These further tax rate reductions had not been substantively enacted at the balance sheet date and, therefore, are 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 | |
|---|---|---|---|---|
| | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 |
| At 1 January | **–** | – | **(653)** | (549) |
| Arising on acquisition of subsidiaries | **–** | – | **(844)** | – |
| Deferred tax credited to the income statement | **–** | – | **57** | 88 |
| Deferred tax charged to the income statement | **–** | – | **(416)** | (192) |
| **At 31 December** | **–** | – | **(1,856)** | (653) |

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Development costs capitalised | **(901)** | (485) |
| Intangible assets recognised on acquisition of subsidiaries | **(955)** | (168) |
| Total deferred income tax liabilities | **(1,856)** | (653) |

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:

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Tax losses carried forward | **2,537** | 1,343 |
| Equity-settled share options temporary differences | **452** | 289 |
| Total unrecognised deferred tax assets | **2,989** | 1,632 |

## 11 Earnings per share (EPS)

| Basic and diluted earnings per share | **2013** | 2012 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of basic and diluted EPS being net loss attributable to equity holders of the parent company (£'000) | **(1,968)** | (638) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic EPS ('000) | **21,984** | 21,764 |
| Effect of dilutive potential ordinary shares: | | |
| – Share options ('000) | **1,034** | 1,383 |
| Weighted average number of ordinary shares for the purposes of diluted EPS ('000) | **23,018** | 23,147 |
| Basic EPS (pence) | **(8.9p)** | (2.8p) |
| Diluted EPS (pence) | **(8.9p)** | (2.8p) |

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 exceptional items such as acquisition, integration or reorganisation costs from the measurement of profit for the period.

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

### 11 Earnings per share (EPS) continued

| Adjusted diluted earnings per share | Notes | 2013 | 2012 |
|---|---|---|---|
| Earnings for the purposes of diluted EPS being net loss attributable to equity holders of the parent company (£'000) | | **(1,968)** | (638) |
| Adjustments: | | | |
| Reversal of amortisation on acquired intangible assets (£'000) | 9, 12 | **313** | 257 |
| Reversal of share-based payments charge (£'000) | 21 | **92** | 63 |
| Reversal of exceptional items (£'000) | 9 | **764** | 423 |
| Net adjustments (£'000) | | **1,169** | 743 |
| Adjusted earnings (£'000) | | **(799)** | 105 |
| Adjusted diluted EPS (pence) | | **(3.5p)** | 0.5p |

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

### 12 Other intangible assets

| | Goodwill £'000 | Acquired customer relationships and order backlog £'000 | Acquired software products £'000 | Capitalised product development costs £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2012 | 7,418 | 449 | 529 | 2,579 | 295 | 11,270 |
| Effects of movement in exchange rates | — | — | — | — | (12) | (12) |
| Additions | — | — | — | 1,845 | 16 | 1,861 |
| At 31 December 2012 | 7,418 | 449 | 529 | 4,424 | 299 | 13,119 |
| Additions | — | — | — | 3,037 | 161 | 3,198 |
| Acquisition of Geoplan | 1,698 | 1,593 | 626 | — | 173 | 4,090 |
| **At 31 December 2013** | **9,116** | **2,042** | **1,155** | **7,461** | **633** | **20,407** |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2012 | — | (68) | (44) | (1,452) | (30) | (1,594) |
| Effects of movement in exchange rates | — | — | — | — | 4 | 4 |
| Charge for the year | — | (80) | (177) | (862) | (91) | (1,210) |
| At 31 December 2012 | — | (148) | (221) | (2,314) | (117) | (2,800) |
| Charge for the year | — | (120) | (193) | (1,227) | (105) | (1,645) |
| **At 31 December 2013** | **—** | **(268)** | **(414)** | **(3,541)** | **(222)** | **(4,445)** |
| **Net book amount** | | | | | | |
| **At 31 December 2013** | **9,116** | **1,774** | **741** | **3,920** | **411** | **15,962** |
| At 31 December 2012 | 7,418 | 301 | 308 | 2,110 | 182 | 10,319 |

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

## 12 Other intangible assets continued

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (CGU) or groups of CGUs (including goodwill) is compared with the recoverable amount of the CGU or groups of CGUs. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of readily available information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use for the purposes of performing an impairment test of goodwill, unless this would lead to an impairment loss. If goodwill would be impaired using value in use as the recoverable amount, a fair value less costs to sell assessment would be performed as this may lead to a higher recoverable amount. The Group calculates the value in use using a discounted cash flow model. The future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The discount rate is derived from the group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks. Discount rates of 10.0% and 14.5% have been used for goodwill impairment calculations performed in 2013 (2012: 9.7% and 12.5%). The recoverable amounts of all CGUs have been determined from value-in-use calculations based on five year forecasts projected from the 2014 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 after the forecast period. The Board has considered reasonable possible sensitivities in key assumptions on which the value-in-use calculations are based. 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 Property, plant and equipment

| | Fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2012 | 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 |
| Effect of movements in exchange rates | (42) | 4 | (38) |
| Additions | 52 | 88 | 140 |
| Acquisition of subsidiaries | 136 | — | 136 |
| Disposals | — | (2) | (2) |
| **At 31 December 2013** | **689** | **607** | **1,296** |
| **Accumulated depreciation** | | | |
| At 1 January 2012 | (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) |
| Effect of movements in exchange rates | 32 | 3 | 35 |
| Charge for the year | (88) | (178) | (266) |
| Disposals | — | 2 | 2 |
| **At 31 December 2013** | **(255)** | **(413)** | **(668)** |
| **Net book amount** | | | |
| **At 31 December 2013** | **434** | **194** | **628** |
| At 31 December 2012 | 344 | 277 | 621 |

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

### 14 Inventories

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Raw materials | 811 | 182 |
| Finished goods | 2,295 | 680 |
| Total inventories | 3,106 | 862 |

Included in the analysis above are impairment provisions against inventory amounting to £nil (2012: £44,000). The Group's inventories are comprised of products which are not generally subject to rapid obsolescence on account of technological trends, deterioration in condition or market trends.

### 15 Trade and other receivables

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Trade receivables, gross | | 7,072 | 7,390 |
| Allowances for doubtful debts | 15.1 | (141) | (80) |
| Trade receivables, net | 15.2 | 6,931 | 7,310 |
| Amounts recoverable on contracts | | 3,347 | 2,439 |
| Other receivables | | 285 | 40 |
| Prepayments and accrued income | | 645 | 502 |
| Corporation tax recoverable | | 177 | — |
| VAT and taxation receivable | | 162 | 11 |
| Total trade and other receivables | | 11,547 | 10,302 |

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.

#### 15.1 Movement in allowance for doubtful debts

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| At 1 January | (80) | (7) |
| Amounts recovered in the year | 2 | 7 |
| Allowance made | (63) | (80) |
| At 31 December | (141) | (80) |

#### 15.2 Ageing of past due but not impaired receivables

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Neither past due nor impaired | 5,114 | 5,360 |
| Past due but not impaired: | | |
| 0 to 90 days overdue | 1,500 | 1,360 |
| More than 90 days overdue | 317 | 590 |
| Total | 6,931 | 7,310 |

## 16 Cash and cash equivalents

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Cash at bank and in hand | 3,848 | 2,716 |
| Short-term bank deposits | 116 | — |
| **Cash and cash equivalents** | 3,964 | 2,716 |

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:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| British Pound (GBP) | 489 | 723 |
| Euro (EUR) | 496 | 1,101 |
| US Dollar (USD) | 739 | 847 |
| Japanese Yen (JPY) | 1,718 | — |
| South Korean Won (KRW) | 352 | — |
| Canadian Dollar (CAD) | 11 | 45 |
| Turkish Lira (TRY) | 159 | — |
| **Cash and cash equivalents** | 3,964 | 2,716 |

## 17 Trade and other payables

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Payments received on account | | 2,765 | 1,002 |
| Trade payables | | 3,570 | 1,936 |
| Trade accruals | | 1,748 | 1,404 |
| Current tax liability | | 41 | — |
| Other taxation and social security | | 667 | 612 |
| Other payables | | 705 | 292 |
| Other liabilities – deferred consideration | 25 | 172 | — |
| Other liabilities – contingent consideration | 25 | 355 | — |
| **Total trade and other payables** | | 10,023 | 5,246 |

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

## 18 Bank loans

In August 2013, the Group agreed a new three-year bank loan of up to £5.0 million to provide additional future working capital capacity and is repayable in full in August 2016. Interest is payable at LIBOR plus 3% 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. The loan replaced an existing loan which was drawn down in the year, was due to expire in November 2013 and on which there was an outstanding balance of £2.0 million which had been drawn down in full in April 2013. The new loan was used pay the outstanding balance on this previous loan. As at 31 December 2013, and as at 24 March 2014, £3.5 million (31 December 2012: £nil) is outstanding and is repayable by Ubisense Limited to HSBC Bank plc.

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

## 19 Other liabilities

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Other liabilities – contingent consideration | 25 | 430 | — |

## 20 Share capital and premium

| | Number of ordinary shares of £0.02 each | Share capital £'000 | Share premium £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 1 January 2012 | 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 |
| Issued under share-based payment plans | 399,593 | 8 | 103 | 111 |
| Issued on acquisition of subsidiary | 759,809 | 15 | 1,696 | 1,711 |
| Change in year | 1,159,402 | 23 | 1,799 | 1,822 |
| **Balance at 31 December 2013** | **23,079,146** | **461** | **24,050** | **24,511** |

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

During the period, the Company issued 1,159,402 shares, increasing the total number of shares in issue from 21,919,744 to 23,079,146 as follows:

- 399,593 shares as a result of options exercised with a weighted average exercise price of £0.28 per share for total cash consideration of £111,000; and
- 759,809 shares as a result of the acquisition of the Geoplan Interworks K.K. group of companies at £2.2525 per share for cash consideration of £nil.

## 21 Share-based payments: options and warrants

### 21.1 Equity-settled share-based payment arrangements

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.

### 21.2 Analysis of amounts recognised in the financial statements

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Total share-based payments charge recognised in operating profit | 92 | 63 |

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

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Net share-based payments credit recognised in equity | 92 | 63 |

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

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Cumulative reserve credit for share-based payments | 22 | 746 | 654 |

## 21 Share-based payments: options and warrants continued

### 21.3 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 2013 Number | Granted during the year Number | Exercised during the year Number | Forfeited during the year Number | **Awards outstanding at 31 December 2013 Number** | Awards exercisable at 31 December 2013 Number |
|---|---|---|---|---|---|---|---|---|---|---|
| Options | 2006 | 2007–09 | 2016 | 0.900 | 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 | — | (707) | — | **3,750** | 3,750 |
| | 2010 | 2011–13 | 2020 | 0.140 | 1,243,815 | — | (360,338) | (333) | **883,144** | 883,144 |
| | 2011 | 2012–14 | 2021 | 1.050 | 427,466 | — | (14,902) | (4,114) | **408,450** | 269,932 |
| | 2011 | 2012–14 | 2021 | 1.975 | 32,532 | — | (21,146) | — | **11,386** | 7,591 |
| | 2012 | 2013–15 | 2022 | 2.125 | 346,000 | — | — | (2,000) | **344,000** | 33,334 |
| | 2013 | 2014–16 | 2023 | 2.055 | — | 421,500 | — | (50,000) | **371,500** | — |
| **Total** | | | | | **2,057,720** | **421,500** | **(399,593)** | **(56,447)** | **2,023,180** | **1,198,701** |
| Weighted average exercise price (£) | | | | | 0.695 | 2.055 | 0.277 | 1.973 | **1.025** | 0.415 |

The weighted average share price at the date of exercise for options exercised during the year was £2.1053 (2012: £2.1026).

### 21.4 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 granted during the years ended 31 December 2013 and 31 December 2012:

| Instrument | Option | Option |
|---|---|---|
| Number granted | 421,500 | 347,000 |
| Grant date | 19 April 2013 | 29 June 2012 |
| Share price at grant date (£) | 2.055 | 2.125 |
| Exercise price (£) | 2.055 | 2.125 |
| Fair value per option (£) | 0.3 | 0.3 |
| Expected life (years) | 3.0 | 3.0 |
| Expected volatility (%) | 20 | 20 |
| Risk-free interest rate (%) | 0.79 | 0.87 |
| Expected dividends expressed as a dividend yield (%) | — | — |

# Notes to the consolidated financial statements continued

**for the year ended 31 December 2013**

## 22 Other reserves

| | Share-based payment reserve £'000 | Translation reserve £'000 | Total £'000 |
|---|---|---|---|
| Balance at 1 January 2012 | 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 |
| Exchange difference on retranslation of net assets and results of overseas subsidiaries | — | (173) | (173) |
| Reserve credit for equity-settled share-based payment | 92 | — | 92 |
| **Balance at 31 December 2013** | **746** | **(221)** | **525** |

### 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.

## 23 Operating lease commitments

### Leases as lessee

At 31 December 2013, 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 | |
|---|---|---|---|---|
| | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 |
| No later than one year | **433** | 360 | **111** | 111 |
| Later than one year and no later than five years | **1,409** | 1,512 | **117** | 91 |
| Later than five years | **550** | 853 | **—** | — |
| **Total** | **2,392** | 2,725 | **228** | 202 |

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 2014 for operating leases is expected to be £30,000 higher than the committed cash payments shown above.

The Group has guaranteed rent bonds issued by its banks on its behalf totalling £122,000 as at 31 December 2013 (2012: £125,000). These are not expected to result in any material financial loss.

## 24 Principal subsidiaries

| Subsidiary | Country of incorporation | Principal activity | Proportion of ordinary shares held by Group (%) | Proportion of ordinary shares held by non-controlling interests (%) |
|---|---|---|---|---|
| Ubisense Limited | UK | Location solutions | 100 | — |
| Ubisense AG | Germany | Location solutions | 100 | — |
| Ubisense SAS | France | Location solutions | 100 | — |
| Ubisense Inc. | US | Location solutions | 100 | — |
| Ubisense Solutions Inc. | Canada | Location solutions | 100 | — |
| Geospatial Systems Limited | UK | Location solutions | 100 | — |
| Geoplan Interworks K.K. | Japan | Intermediate holding company | 100 | — |
| Geoplan Company Limited* | Japan | Location solutions | 77 | 23 |
| Binary Star Developments K.K.* | Japan | Non-trading | 100 | — |
| Geoplan Korea Company Limited* | South Korea | Location solutions | 100 | — |
| Geoplan Philippines, Inc.* | Philippines | Location solutions | 100 | — |

All subsidiaries are directly held by Ubisense Group Plc except those denoted* which are held by intermediate holding companies.

All subsidiaries prepare local statutory accounts up to 31 December each year except for Geospatial Systems Limited which prepares accounts up to 31 March, Geoplan Company Limited to 30 June and Binary Star Developments K.K. to 31 January. For subsidiaries who which have a different financial year end to the Group, additional coterminous accounts are prepared reflecting the same financial reporting as the Group for the purposes of consolidation.

## 25 Business combinations

### 25.1 Subsidiaries acquired

| Subsidiary | Country of incorporation | Principal activity | Date of acquisition | Proportion of equity interest acquired |
|---|---|---|---|---|
| Geoplan Interworks K.K. | Japan | Location solutions | 3 December 2013 | 100% |

The Geoplan Interworks K.K group of companies (“Geoplan”) was acquired to enhance the Group’s geographic reach into the Asian market to deploy RTLI solutions to utility, telecoms and manufacturing customers in Japan, South Korea and the Philippines. Geoplan, formerly the master distributor for the Group in Asia, is a location solutions business providing geospatial software products and consulting, with a focus on the utility and telecoms sectors. The acquisition will enhance the Group’s product range, customer list, sector presence and geographical footprint, bringing locally based skills and presence to the Group. The Group expects Japan to be the headquarters for its Asian operations and to develop the markets in China from there.

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

### 25 Business combinations continued

#### 25.2 Consideration transferred

| | Total £'000 |
|---|---|
| Cash consideration paid | 635 |
| Consideration satisfied by issue of Ubisense shares | 1,711 |
| Deferred consideration | 178 |
| Contingent cash consideration arrangement | 816 |
| **Consideration transferred** | **3,340** |

Consideration satisfied by issue of Ubisense shares comprised 759,809 new ordinary shares of nominal value of £0.02 in Ubisense at a price of 225.25p per ordinary share, being the average of the volume weighted mid-market closing price on each of the preceding five business days.

The deferred consideration was paid in full in January 2014.

Under the contingent cash consideration arrangement, the Group is required to pay additional amounts to the vendors of Geoplan based on the achievement of two separate performance milestones that may arise between 2014 and 2017 with a combined undiscounted range of outcomes between £nil and £892,000. The fair value of the contingent consideration of £816,000 recognised at the acquisition date was based on management's best estimate of the probability-adjusted estimated future cash outflows from the arrangement discounted at 3.5%. The discount rate used is 3.5%, based in the Group's estimated incremental borrowing rate for unsecured liabilities at the reporting date, and therefore reflects the Group's credit position. The effects on the fair value of risk and uncertainty in future cash flow are dealt with by adjusting the estimated cash flows rather than adjusting the discount rate.

As at 31 December 2013, the fair value amount recognised for this arrangement was unchanged based on the most recent management estimates, although as the liability is denominated in Japanese Yen it is subject to the impact of exchange rates:

| | Upon acquisition £'000 | Effect of exchange rates £'000 | At 31 December 2013 £'000 |
|---|---|---|---|
| Deferred consideration – current | 178 | (6) | 172 |
| Contingent consideration – current | 369 | (14) | 355 |
| Contingent consideration – non-current | 447 | (17) | 430 |
| Total contingent consideration | 816 | (31) | 785 |
| **Total** | **994** | **(37)** | **957** |

Acquisition-related costs amounting to £464,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year within the "operating expenses" line item in the consolidated income statement.

## 25 Business combinations continued

### 25.3 Assets acquired and liabilities recognised at the date of acquisition

| | Total £'000 |
|---|---|
| **Assets** | |
| **Non-current assets** | |
| Software products | 626 |
| Customer relationships | 1,246 |
| Order backlog | 347 |
| Other intangible assets | 173 |
| Property, plant and equipment | 132 |
| Total non-current assets | 2,524 |
| **Current assets** | |
| Inventories | 1,605 |
| Trade and other receivables | 1,080 |
| Cash and cash equivalents | 2,481 |
| Total current assets | 5,166 |
| **Liabilities** | |
| **Current liabilities** | |
| Trade and other payables | (4,500) |
| Total current liabilities | (4,500) |
| **Non-current liabilities** | |
| Deferred income tax liabilities | (843) |
| Total non-current liabilities | (843) |
| **Non-controlling interest** | (704) |
| **Fair value of identifiable net assets acquired** | 1,643 |

The fair value of trade and other receivables of £1,080,000 includes trade receivables with a fair value and gross contractual value of £1,080,000 all of which is expected to be collectable.

As at 31 December 2013, the fair values of acquired assets, liabilities and goodwill for Geoplan have been determined on a provisional basis as these businesses were acquired in close proximity to the year end, pending finalisation of the post-acquisition review of the fair value of the acquired net assets.

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

## 25 Business combinations continued

### 25.4 Goodwill arising on acquisitions

| | Total £'000 |
|---|---|
| **Fair value of consideration transferred** | 3,340 |
| Less: fair value of identifiable net assets acquired | 1,643 |
| **Goodwill arising on acquisitions** | 1,697 |

Goodwill arose on the acquisition of Geoplan in respect of the benefits of a highly knowledgeable workforce, expected operational synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Goodwill is not expected to be deductible for tax purposes.

### 25.5 Net cash inflow on acquisition of subsidiaries

| | Total £'000 |
|---|---|
| **Cash consideration paid** | (635) |
| Less: cash and cash equivalent balances acquired | 2,481 |
| **Net cash inflow on acquisition of subsidiaries** | 1,846 |

### 25.6 Impact of acquisitions on the results of the Group

The incremental impact of acquisitions to the Group's results for the year are set out in the table below:

| | Before acquisitions £'000 | Geoplan £'000 | Total £'000 |
|---|---|---|---|
| Revenue | 26,284 | 718 | 27,002 |
| Adjusted EBITDA | 929 | 212 | 1,141 |
| (Loss)/profit before tax | (1,828) | 109 | (1,719) |

If the acquisitions had been effective from 1 January 2013, the Group's estimated results would have been as follows:

| | Before acquisitions £'000 | Geoplan £'000 | Total £'000 |
|---|---|---|---|
| Revenue | 26,284 | 5,365 | 31,649 |
| Adjusted EBITDA | 929 | (59) | 870 |
| Loss before tax | (1,828) | (75) | (1,903) |

## 26 Related party transactions

Other than compensation of key management personnel disclosed in note 6.3 there are no transactions with other related parties. Full details of Directors' remuneration are given in note 7.

There were no other transactions with Directors of the Company.

## 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 co-operation 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 Financial risk management continued

### 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:

| | Japanese Yen | | US Dollars | | Euros | |
|---|---|---|---|---|---|---|
| | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 |
| Assets | **–** | – | **777** | 752 | **623** | 817 |
| Liabilities | **–** | – | **(5)** | (16) | **(5)** | (3) |

### 27.3 Foreign currency sensitivity analysis

The Group is mainly exposed to US Dollars, Euros and Japanese Yen. 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.

| | Japanese Yen | | US Dollars | | Euros | |
|---|---|---|---|---|---|---|
| | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 |
| **Effect of a 5% strengthening in relevant exchange rate on:** | | | | | | |
| Income statement | **–** | – | **41** | 37 | **33** | 39 |
| Equity | **–** | – | **41** | 37 | **33** | 39 |
| **Effect of a 5% weakening in relevant exchange rate on:** | | | | | | |
| Income statement | **–** | – | **(37)** | (40) | **(30)** | (43) |
| Equity | **–** | – | **(37)** | (40) | **(30)** | (43) |

### 27.4 Interest rate sensitivity

The Group's exposure to market risk for the changes in interest rates relates primarily to the Group's three-year £5.0 million bank loan. Interest is payable at LIBOR plus 3% and £3.5 million of the loan was outstanding as at 31 December 2013 (2012: £nil).

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.

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| **Effect of a 0.5% decrease in interest rate on:** | | |
| Income statement | **17** | – |
| Equity | **17** | – |
| **Effect of a 0.5% increase in interest rate on:** | | |
| Income statement | **(17)** | – |
| Equity | **(17)** | – |

# Notes to the consolidated financial statements continued

## for the year ended 31 December 2013

## 27 Financial risk management continued

### 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 continually 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.

### 27.6 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 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. 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 and to draw down on borrowing facilities for when required. As disclosed in note 18, the Group entered into a £5.0 million bank facility in the year, of which £3.5 million was drawn down as at 31 December 2013.

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 2013** | | | | |
| Trade and other payables | **6,195** | **355** | **430** | **—** |
| Bank loan | **—** | **—** | **3,500** | **—** |
| **As at 31 December 2012** | | | | |
| Trade and other payables | 3,632 | — | — | — |

### 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, and the Group's borrowing facilities.

The capital structure is continually monitored by the Group. 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 Group has entered into a £5.0 million bank facility in 2013 of which £3.5 million was drawn down as at 31 December 2013 (2012: £nil) in order to provide working capital capacity to fund business growth.

## 27 Financial risk management continued

### 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 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Loans and receivables: | | | |
| – Trade receivables | 15 | 6,931 | 7,310 |
| – Amounts recoverable on contracts | 15 | 3,347 | 2,439 |
| – Other receivables | 15 | 285 | 40 |
| – Cash and cash equivalents | 16 | 3,964 | 2,716 |
| Total financial assets | | 14,527 | 12,505 |
| **Financial liabilities** | | | |
| Amortised cost: | | | |
| – Trade payables | 17 | 3,570 | 1,936 |
| – Trade accruals | 17 | 1,748 | 1,404 |
| – Other payables | 17 | 705 | 292 |
| – Deferred consideration | 25.2 | 172 | — |
| – Contingent consideration | 25.2 | 785 | — |
| – Bank loan | 18 | 3,500 | — |
| Total financial liabilities | | 10,480 | 3,632 |

# 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 31 December 2013 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 25, 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 Financial Reporting Council'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 31 December 2013;
- 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 Strategic Report and 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 31 December 2013.

**Paul Naylor**
**Senior Statutory Auditor**
**for and on behalf of Grant Thornton UK LLP**
**Statutory Auditor, Chartered Accountants**
**Cambridge**
**24 March 2014**

# Company balance sheet
## at 31 December 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments in subsidiaries | 3 | 17,332 | 15,906 |
| **Current assets** | | | |
| Debtors | 4 | 7,540 | 7,772 |
| Cash at bank and in hand | | 288 | — |
| | | 7,828 | 7,772 |
| **Creditors – amounts falling due within one year** | 5 | (403) | — |
| **Net current assets** | | 7,425 | 7,772 |
| **Total assets less current liabilities** | | 24,757 | 23,678 |
| **Net assets** | | 24,757 | 23,678 |
| **Capital and reserves** | | | |
| Called-up share capital | 6 | 461 | 438 |
| Share premium account | 7 | 24,050 | 22,251 |
| Share-based payment reserve | 7 | 746 | 654 |
| Profit and loss reserve | 7 | (500) | 335 |
| **Equity shareholders' funds** | 8 | 24,757 | 23,678 |

The notes on pages 62 to 63 are an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 24 March 2014 and signed on its behalf by:

**Richard Green**
**Chief Executive Officer**
**Ubisense Group Plc**

**Robert Parker**
**Chief Financial Officer**

Registered Number: 05589712

# Notes to the Company financial statements

## for the year ended 31 December 2013

## 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 31 December 2013 of £835,000 (2012: £122,000).

The Company does not have any employees (2012: 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 2013 | 15,906 |
| Additions | 1,334 |
| Capital contribution relating to share-based payments | 92 |
| **At 31 December 2013** | **17,332** |

### Additions

Additions in the year relate to:

» acquisition of Geoplan Interworks K.K. for total consideration of £30,000; and

» subscription of new shares in existing subsidiary companies: Ubisense Solutions Inc. for total consideration of £316,000 and Ubisense Inc. for total consideration of £988,000.

### 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.

## 4 Debtors

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Amounts owed by subsidiary undertakings | 7,537 | 7,769 |
| Other debtors | 3 | 3 |
| | 7,540 | 7,772 |

## 5 Creditors: amounts falling due within one year

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Trade accruals | 403 | — |

## 6 Share capital

| | 2013 Number | 2012 Number | 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|
| **Allotted, called-up and fully paid** | | | | |
| Ordinary shares of £0.02 each | 23,079,146 | 21,919,744 | 461 | 438 |

A description of the movements in share capital in the year is given in note 20 of the consolidated financial statements.

## 7 Reserves

| | Share premium £'000 | Share-based payment reserve £'000 | Profit and loss reserve £'000 |
|---|---|---|---|
| Balance at 1 January 2013 | 22,251 | 654 | 335 |
| Loss for the year | — | — | (835) |
| Reserve credit for equity-settled share-based payment | — | 92 | — |
| Premium on new share capital | 1,799 | — | — |
| Change in year | 1,799 | 92 | (835) |
| **Balance at 31 December 2013** | 24,050 | 746 | (500) |

## 8 Reconciliation of movements in shareholders' funds

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Loss for the year | (835) | (122) |
| Reserve credit for equity-settled share-based payment | 92 | 63 |
| Issue of new share capital | 23 | 5 |
| Premium on new share capital | 1,799 | 220 |
| **Net change in shareholders' funds** | 1,079 | 166 |
| Shareholders' funds at 1 January | 23,678 | 23,512 |
| **Shareholders' funds at 31 December** | 24,757 | 23,678 |

# Notice of Annual General Meeting

## 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, 200 Aldersgate, Aldersgate Street, London EC1A 4HD on 15 May 2014 at 1.00pm.

You will be asked to consider and vote on the resolutions below. Resolutions 1, 2, 3, 4, 5 and 6 will be proposed as ordinary resolutions and resolution 7 will be proposed as a special resolution.

## Ordinary business

### Report and accounts

1. THAT the Company's annual accounts for the financial year ended 31 December 2013, together with the Directors' Report and Auditors' Report on those accounts, be received and adopted.

### Re-election of Directors

2. THAT J Keith Lomas, who retires by rotation and offers himself for re-appointment by general meeting, be re-elected as a Director of the Company.

3. THAT Dr Robert Sansom, who retires by rotation and offers himself for re-appointment by general meeting, be re-elected as a Director of the Company.

4. THAT Robert Parker, who offers himself for re-appointment at the Company's first Annual General Meeting after his appointment to the Board, be re-elected as a Director of the Company.

### Re-appointment of auditors

5. THAT Grant Thornton UK LLP be re-appointed 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

6. 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 £166,791 (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 £26,000 in connection with options granted in accordance with the Company's Articles of Association prior to the Company's admission to trading on AIM 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.

7. THAT subject to and conditional upon the passing of resolution number 6 opposite, 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 £26,000; 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 £75,055 (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**
**24 March 2014**

Additional Information

# Notice of Annual General Meeting continued

## 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.
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 Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol BS99 6ZZ 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 hard copy 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: 3RA 50) 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 Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol BS99 6ZZ.

    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 Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol BS99 6ZZ. 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.

# Notice of Annual General Meeting continued

## 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 5.00pm on the day before this notice, the Company's issued share capital comprised 25,018,652 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 5.00pm on the day before this notice is 25,018,652.

## Communication

14. 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 4081 or +44 (0) 870 707 4081 from outside of the UK. Lines are open Monday to Friday, 8.30am to 5.30pm; 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.

# Corporate directory

### Registered office
St. Andrew's House
St. Andrew's Road
Chesterton
Cambridge CB4 1DL
UK

### Website
www.ubisense.net

### Registered number
05589712

### Company Secretary
Gordon Campbell

### Nominated Advisor and broker
Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR
UK

### Banker
HSBC Bank plc
Vitrum
St Johns Innovation Park
Cowley Road
Cambridge CB4 0WS
UK

### Solicitor
Mills & Reeve LLP
Francis House
112 Hills Road
Cambridge CB2 1PH
UK

### Auditor
Grant Thornton LLP
Cambridge Office:
101 Cambridge Science Park
Milton Road
Cambridge CB4 0FY
UK

### Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
UK

### Public relations advisor
FTI Consulting
200 Aldersgate Street
London
EC1A 4HD
UK

# Shareholder information

### Shareholder enquiries
Any shareholder with enquiries should, in the first instance, contact our Registrars, Computershare, using the address provided in the Corporate Directory.

### Share price information
London Stock Exchange Alternative Investment Market (AIM) symbol: UBI

Information on the Company's share price is available on the Ubisense Investor Relations website at http://www.ubisense.net/en/investor-relations/

### Investor relations
St. Andrew's House
St. Andrew's Road
Chesterton
Cambridge CB4 1DL
UK

Email: corporate@ubisense.net
Tel: + 44 (0) 1223 535 170

### Financial calendar

| | |
|---|---|
| Financial year end | 31 December 2013 |
| Full year results announced | 25 March 2014 |
| Annual General Meeting | 15 May 2014 |

Ubisense Group Plc's commitment to environmental issues is reflected in this annual report which has been printed on Symbol Freelife Satin, an FSC® Mix Certified paper, which ensures that all virgin pulp is derived from well-managed forests and other responsible sources.

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP

St. Andrew's House
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www.ubisense.net