Annual Report and Accounts 2011

Transforming location awareness
into business intelligence

Ubisense
The location solutions company

Transforming location awareness into business intelligence.

Ubisense was founded on the notion that computers monitoring or controlling anything in the real world need to be able to sense the environment they operate in.

We are now the market leader of location solutions, delivering mission-critical enterprise asset tracking and geospatial systems. We deliver precise, Real-time Location Solutions to locate assets, vehicles, people or anything else you can imagine, to track precisely both indoors and outdoors, and manage workforce and assets that are moving or fixed.

Our systems provide the very best in...

Location awareness

↓

Real-time Location Solutions

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Location consulting and software solutions based in two key areas

Geospatial Solutions

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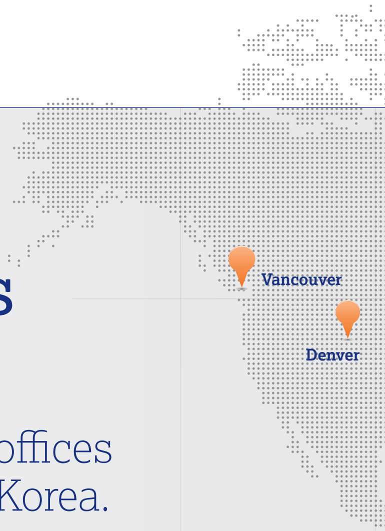
which translate technical information into

High-worth, actionable business intelligence

Our business



Where we operate

Our solutions solve real world problems for industrial customers around the world.

Ubisense is headquartered in Cambridge, UK and has offices in the USA, Canada, France, Germany, Singapore and Korea.

Our markets

Ubisense location solutions are deployed in a wide range of markets but the benefits of our technology are applicable to any industry, bringing bottom-line benefits to organisations both large and small.

- Automotive manufacturing
- Aerospace manufacturing
- General manufacturing
- Transportation
- Training applications
- Utilities and telecoms

Automotive manufacturing

- Major European and North American OEMs
- Installations in North America, Europe and Asia

Aerospace

- Multi-site, multi-country installations
- North American and European installations

What we offer our customers

Ubisense technology is powering the creation of a new generation of location solutions.

Ubisense's Location Driven Manufacturing Solutions improve productivity by providing real-time visibility and control for a smarter production flow. By tracking the location of critical assets, tools and components, Ubisense Manufacturing Solutions provide unequalled information about current and past production activities. This data, delivered by best-in-class location sensors, supports lean manufacturing goals by identifying new efficiencies and opportunities for continuous improvement, and making it easier to monitor and enforce stringent quality control.

172
Employees worldwide

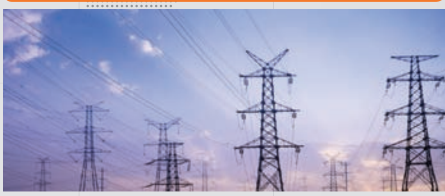
50
New customers

2
Acquisitions
throughout the year

Transportation

- North American and European installations
- Progress in large and small operators

Utilities and Telecoms



- Leading utility and telecoms providers in North America and Europe

Process optimisation

Ubisense Manufacturing Solutions support continuous improvement initiatives by measuring and analysing process flow to identify areas for potential improvement.

When coupled with a baseline production plan, automatic process monitoring also provides real-time alerts whenever progress deviates off schedule. This enables rapid intervention long before impacting delivery schedules.

Operational efficiency

Location awareness means knowing where everything is. Having this information alone can reap a rapid return on investment.

Keeping track of critical asset helps pinpoint misplaced items, streamline audits, optimise bar-code scanning delivery and maximise asset utilisation. And, by automating processes, Ubisense Manufacturing Solutions can eliminate time-consuming manual tasks like parts scanning and quality inspection stamping, ensuring production operates at optimal efficiency.

Improved quality and flexibility

Ubisense Manufacturing Solutions enable WIP and tool identification and tracking with six-sigma reliability, far surpassing traditional techniques.

By wirelessly associating tools with tasks, Ubisense offers a virtual tether, recording tool operations for quality records and disabling tools from performing unauthorised tasks. The elimination of the physical tether allows tools to roam freely and safely, and enables rapid line reconfiguration.

Highlights

Financial highlights

Revenue increased 34.4% to £23.8 million (2010: £17.7 million)

Gross margin up from 33.5% to 35.6%

Adjusted EBITDA* increased 39.1% to £1.4 million (2010: £1.0 million)

Adjusted operating profit, excluding AIM admission and acquisition costs, increased 6.0% to £0.7 million (2010: £0.6 million); reported operating profit of £0.3 million (2010: £0.6 million)

Adjusted diluted EPS** 5.5p (2010: 5.7p). EPS 0.2p (2010:3.3p)

Net cash of £6.0 million (2010: £3.5 million)

Other highlights

Substantially oversubscribed initial public offering on AIM, raising £5.0 million before expenses for the Group and £3.7 million for selling shareholders

Substantial new contracts with automotive, manufacturing and utility customers

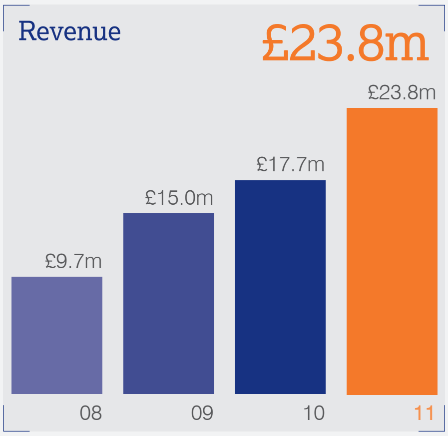
Global license agreements with BMW and EADS, deepening existing long term customer relationships

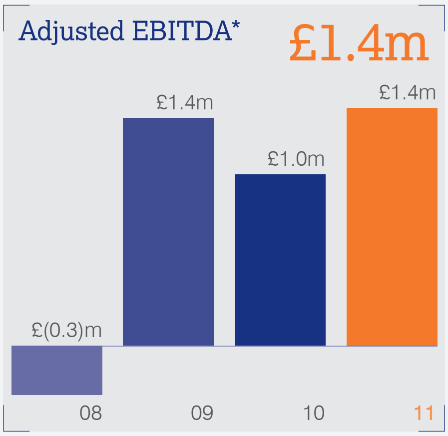
Increased R&D spend, driving product innovation

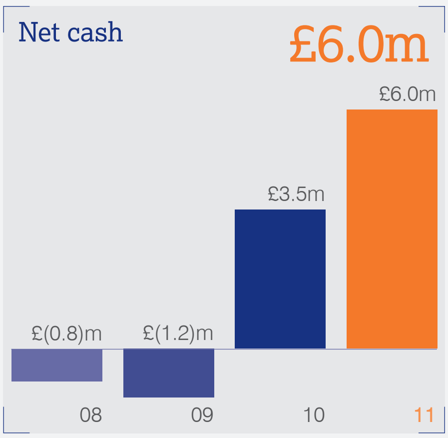
Two acquisitions completed, integrated and performing in line with expectations

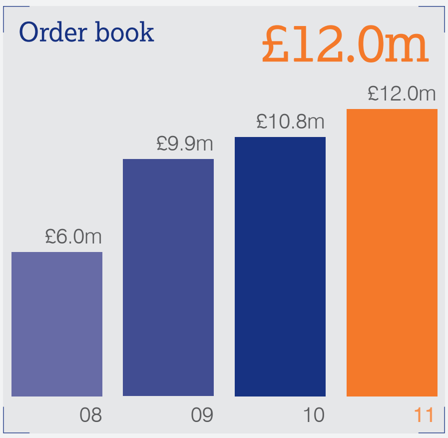
* Measured as operating profit excluding depreciation, amortisation, share-based payments charge, AIM listing expenses and acquisition costs

** Earnings measured as profit for the period excluding amortisation, share-based payments charge, AIM listing expenses and acquisition costs









Inside this report

Visit us online

Find out more about our divisions, customers and partners.

www.ubisense.net

Real-time Location Solutions

Providing visibility and control over assets and processes in multifaceted environments where assets are constantly on the move.

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

Our solutions

Asset Manager

Ubisense Asset Manager brings new levels of precision to the tracking and monitoring of tagged assets across defined spaces.

Asset Manager is a web-based application that can locate and monitor tagged assets and report the location and history of asset movement.

Visible Industrial Process (VIP)

The Ubisense Visible Industrial Process (VIP) software application is a web-based solution which uses the Ubisense Real-time Location System (RTLS) to track components and assemblies in complex distributed manufacturing environments. It provides real-time visibility into the current manufacturing situation.

Assembly Control System (ACS)

Ubisense Assembly Control System (ACS) is a solution designed to enable the automatic identification of products in the assembly process, and assign an automatic process to each via computer-assisted process tools. The Ubisense Assembly Control System (ACS) is delivering reduced cycle times, increased throughput and improved quality on assembly lines.

Location Driven Training (LDT)/e-Kaizen

Ubisense LDT/e-Kaizen bring new levels of automation to After Action Review (AAR) for better and more cost effective training and e-Kaizen for optimising workflow in production workstations providing a real-time view inside and outside movement of participants. Ubisense LDT/e-Kaizen provides automatic detection of relevant events and instant video indexing for retrieval by participant location or event.

Transit Yard Manager (TYM)

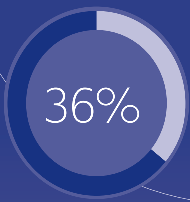
By combining industry-leading precise location technology with a real-time, web-based software solution, organizations can achieve reliable, system-wide vehicle location down to the individual parking space for all of their vehicles, both indoors and outdoors.

Sensors and Tags

Ubisense installs a sensor network throughout the area where assets will be monitored. All sensors are standard IP-based devices connected using standard commercially-available network equipment which are monitored and tuned in real-time. Ubisense location tags are then attached to assets and are registered with the system.

Revenue contribution

£8.7m
+51%



Quick facts

21 partners
21 partners across a range of markets including Atlas Copco, IBS and General Dynamics.

Over 500 customers
We are proud to be working with some of the world's most renowned blue-chip companies.

Over 350 installations
Continued large and small-scale roll outs of installations throughout the year.

Customers we work with

- EADS Airbus
- BMW
- Aston Martin
- Cummins
- Honda
- Chicago Transit Authority

Progress

The RTLS division has continued to grow winning business from both new and existing accounts

- Ubisense signed a global licence agreement with BMW to provide its RTLS solution across the BMW Group
- Signed a master contract with EADS and began a five year managed services agreement with Airbus
- Ubisense signed a deal to install the Group's Transit Yard Management (TYM) system at seven depots

Case study

MINI

Multiple MINI models are produced on the same production line necessitating loading specific tool programs into each of the power tools based on the model variant to be worked on at a particular station. Previously the identification of the vehicle occurred using a barcode scanner resulting in unproductive work (around 6 seconds per tool operation at 165 tool stations on 900 cars per day).

Installed area: Approximately 1 mile assembly line
Sensors: 360
Tools tagged: 100
Reliability: 99.9%

The Ubisense solution:

Assembly Control System

The Ubisense ACS solution tracks both vehicles and power tools detecting when a tool is brought close to the vehicle. The required tool program is obtained from the Manufacturing Engineering System using the Vehicle Identification Number and sent directly to the Tool Controller to program and enable the tool on the production line.

Result:
Cost and time reduction on the assembly line with significant improvement in quality by excluding human error and the need for re-work.

Visit us online

You can find more information on our Real-time Location Solutions division
www.ubisense.net/rtls-solutions

Geospatial

Managing detailed mapping of network assets, network management, planning and design for large utilities and telecoms companies.

We develop close working relationships with our customers as we strive to understand their issues and their work flows, where geospatial technology can make a difference in their operations.

Our solutions

myWorld

myWorld is a single solution for delivering spatial information to desktop and mobile users throughout your enterprise. Smallworld data, work orders, customer information – anything from your enterprise systems – is presented in a simple Google Maps style view that is easy for everyone to understand and use.

Fiber Planning

The economics of installing the fiber network is highly dependent upon the extent to which existing infrastructure can be used, for example by blowing the fiber through empty ducts. Conventional planning methods have proven to be extremely laborious in this context. Ubisense Fiber Planning solutions automatically generate a cost-optimised detailed network configuration suitable for use as input to the detailed implementation planning task.

Integrated Telecom Network Solutions

Ubisense provides a suite of COTS solutions for key Telecom business processes that include:

- Network Assignment
- Capacity Management
- Integrated Order Handling Fulfilment.

VeroTrack

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

Conflation and Network Adjustment

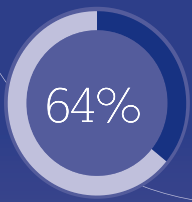
Accurate spatial digital mapping data is critical for the new generations of enterprise geospatial applications. Ubisense provides a complete solution to improve the accuracy of facility networks, significantly reducing the costs associated with landbase replacement and data migration.

GE Smallworld Office Suites

Ubisense maintains the largest network of GE Smallworld expertise in North America and Europe. Our wealth of experience in system integration allows us to quickly deliver office-based solutions to meet our customer's needs. Ubisense provides consulting services and solutions designed to include fully supported data models and applications.

Revenue contribution

£15.1m
+26.5%



Quick facts

7 partners
We distribute and support software products from several providers including GE Energy, GTI and Globema.

90 employees
Recruited and acquired 41 new staff.

Customers we work with

- Deutsche Telekom
- Duke Energy
- Atmos Energy
- Exelon
- Cable and Wireless
- Swisscom

Progress

The Geospatial division delivered significant growth, led by the sale of a newly developed product Fiber Planning

- Ubisense completed two acquisitions in the second half of 2011. Both have been fully integrated and are performing in line with expectations
- Secured a major new win to implement GE's geospatial product suite for a large US electric and gas utility.

Case study

Duke Energy

The merger of Duke Energy and the Cinergy Corporation left Duke with many overlapping information technology organisations and systems. Duke commissioned multiple projects to consolidate the various systems into a single corporate standard based on the GE Smallworld Office Suite platform.

Ubisense solution:

GE Smallworld Electric Office Implementation

Ubisense provided project management, development support, and day to day operational support for Duke's Office Suite implementation. Currently they have eight Ubisense consultants assigned to this project.

Result:

With the support of Ubisense, Duke has successfully rolled out the GE Office Suite products to several regions, with rollouts continuing to other regions.

Visit us online

You can find more information on our Geospatial division

www.ubisense.net/geospatial

Chairman's statement

The opportunity for Ubisense continues to be huge and the Group continues to grow in an agile and prudent way.

Review in brief

- A remarkable year of progress for Ubisense with solid forward momentum
- Good margin progress and prudent cost management
- Both acquisitions performing in line with Board expectations
- Grow the overall business by extending footprint in priority G7 markets
- Board looks forward to the year ahead with confidence

Andy Hopper, Chairman

Introduction

It has been a year of remarkable progress for Ubisense. Since the IPO in June 2011, the Group has shown solid forward momentum to deliver a strong financial performance at our maiden full year results as a listed company.

Overview

The Board is very pleased with the performance for the financial year ended December 31 2011, where Group revenue grew by 34.4% to £23.8 million and we achieved an operating profit, excluding AIM admission and acquisition costs, of £0.7 million. Gross Profit increased from £5.9 million to £8.5 million, representing an improvement in Gross Margin from 33.5% to 35.6%.

We delivered adjusted EBITDA of £1.4 million, while adjusted diluted EPS for FY 2011 is 5.5p from 5.7p in FY 2010. The Group has also ended the year with a healthy net cash figure of £6.0 million.

We saw a strong performance from both of our operating divisions. RTLS and Geospatial achieved considerable growth and displayed momentum which we expect to continue into 2012.

- Our RTLS division has seen excellent progress with a number of blue chip customers in automobile and aerospace manufacturing. Two of our biggest customers, EADS and BMW, grew from single RTLS deployments to multiple installations across their global operations. We have continued to leverage partners' brands and customers to accelerate growth. Our most notable partnership here is with Atlas Copco, a leading industrial tool manufacturer.
- In our Geospatial division, we delivered both organic and inorganic growth and the merits of our strategy can be seen in the strategically important acquisitions we made in 2011.

In September 2011, we acquired Integrated Mapping Services, Inc. ("InMaps"), a US-based company which strengthened our offering in the electricity and gas industries.

In October 2011, Ubisense acquired Realworld OO Systems Limited ("Realworld"), a UK-based company with considerable expertise in providing location solutions to telecoms companies throughout the world. This acquisition saw our customer base in the UK expand to include Cable and Wireless Communications and Global Crossing.

Both of these acquisitions are performing in line with Board expectations.

Strategy

The opportunity for Ubisense continues to be huge and the Group continues to grow in an agile and prudent way. The Board's focus in the coming year is on growing the business by extending the model in its priority G7 markets, particularly in the key Asian markets of Korea and Japan, and to capture new customers through new strategic partnerships like the one in place with Atlas Copco. Our aim is to create long lasting customer relationships with major global businesses in high value markets.

Current trading and outlook

In the period since the year end, current trading has been in line with the Board's expectations and is ahead of the prior year.

New network build outs in the telecoms industry and continued regulation in the energy sector set the scene for another positive year of demand in our Geospatial division. In RTLS, the recovery in the automotive sector continues and the dynamics for the aerospace and transportation industries also look positive. Asia is also likely to be a driver of growth for Ubisense in the year ahead following our first installations in the Korean automotive market.

We begin 2012 with a record order book and the Board looks forward to the year ahead with confidence.

Conclusion

Finally, it was fantastic to see the continued long-term support of our investors rewarded with an IPO which in turn has positioned Ubisense strongly for its next growth phase.

I would like to thank all of our employees, strategic partners and customers for their contributions and support in making 2011 such a successful year for our shareholders.

Andy Hopper
Chairman
19 March 2012

It was fantastic to see the continued long-term support of our investors rewarded with an IPO which in turn has positioned Ubisense strongly for its next growth phase.

Chief Executive's review

We have delivered a robust set of results, our first as a listed company, with a strong increase in revenues, a substantial order book and growing opportunity pipeline.

Review in brief

- A record year for Ubisense continuing on our proven growth strategy
- Two acquisitions strengthening our presence, skill base, software product portfolios and customer list
- Continued investment in R&D led to the release of new applications in both divisions
- Atlas Copco partnership developing well and presenting multiple site opportunities
- Continue to look for acquisition opportunities to enhance our product portfolios and geographical footprint

Richard Green, Chief Executive Officer

Overview

Ubisense performed very well over the year delivering record growth in revenue and adjusted EBITDA. This reflected the growing awareness and deployment of our market leading location solutions to top tier organisations around the world and the continuing execution of our proven growth strategy.

This growth was delivered in both the Real-time location and Geospatial divisions. This reflects improving market conditions in the manufacturing sector and our success in building on our long term customer relationships in both divisions. Following flotation in June 2011, we made two further acquisitions in the UK and North America strengthening our presence, skill base, software product portfolio and customer list in both territories.

Customer momentum

In September we extended our reach into China when we signed a global license agreement with BMW. Our system is now operational in five out of their eight plants worldwide. We estimate that more than one million cars have been tagged and processed by our system since installation, making it the most widely deployed system of its kind in the world.

EADS continued the trend and placed an order for a global license agreement in December. They are deploying the system across each major aircraft program at Airbus, including the A320, A330, A340, A350, A380 and A400M, along with additional deployments at Eurocopter.

Our continued success with new wins and contract extensions for our manufacturing accounts led to the establishment of a subsidiary in France during the year.

Researchers continue to deploy our RTLS technology across multiple applications. The most significant project in 2011 was University of South Florida ("USF") working with the US Department of Veteran Affairs ("VA") on their Smart home project which was very high profile in the US.

In our Geospatial division, Deutsche Telekom continued to develop as a strategic customer with the roll out of a Fibre Planning System across 2000 users. We also took the lead in geospatial projects in North America, with new wins at Atmos Energy and Puget Sound Energy.

Acquisitions

Significant progress was made in integrating our two acquisitions, InMaps in North America and Realworld in the UK, into the business. Both companies brought with them intellectual property which has the potential to be introduced into the rest of our customer base around the world.

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

Strategic Partnerships

Atlas Copco continued to introduce us to their customer base world-wide which resulted directly or indirectly in system sales to Audi, Jaguar Land Rover, GM, Hyundai and Paccar, all of which represent multiple site opportunities in the future.

Last month, we added to our roster of strategic partnerships when we reached an agreement with ATS Global ("ATS"), a global company serving the Manufacturing Execution Systems market. The alliance will allow our joint customers to benefit from even greater levels of flexibility and traceability, supporting manufacturing efficiency goals such as automation, process control and error proofing.

Products

Continued investment in research and development led to the release of new applications in both divisions. Transit Yard Manager (“TYM”), Assembly Control System (“ACS”), Fibre Planning System (“FPS”) and myWorld were all introduced during the year at early customer sites for evaluation. Feedback so far has been very positive and we look forward to an order book developing for these products.

Richard Green
Chief Executive Officer
19 March 2012

Outlook

Ubisense enters 2012 with strong momentum in the business and a healthy order book.

Our priorities for the year

1. Continue to grow the overall business

Build on our existing customer relationships and secure new markets.

2. Expanding our RTLS and Geospatial offerings

Continue our investment in market specific software applications.

3. Develop our strategic partnerships

Continue the strategy of partnering with best of breed and world leaders in their own right, such as Atlas Copco.

Financial review

The Group has a strong balance sheet with net assets of £19.2 million, £6 million net cash and no debt.

Review in brief

- Revenue growth of 34.4%, including contributions from InMaps and Realworld acquisitions
- Gross margins improved due to increased contribution of RTLS revenues
- Adjusted EBITDA improved by 39%
- Operating profit impacted by R&D expenses and one off costs associated with AIM IPO and acquisitions
- Funds from IPO used to fund debt repayment, acquisitions, stock and working capital

Gordon Campbell, Chief Financial Officer

Revenue

In the year ended 31 December 2011, the Group generated revenue of £23.8 million (2010: £17.7 million). The 2011 revenue figures include the effect of the acquisitions of InMaps and Realworld from the beginning of October.

Gross Margin

Gross Profit increased to £8.5 million (2010: £5.9 million), representing an improvement in Gross Margin to 35.6% (2010: 33.5%). Operating profit in 2011 was £0.3 million (2010: £0.6 million) as the Group continues to invest in research and development activities. In 2011 the Group commenced research and development activities in its Geospatial business and this investment was further enhanced by the two acquisitions.

Profit

Adjusted EBITDA is calculated as operating profit adding back depreciation and amortisation, share-based payment charges, acquisition costs and AIM listing expenses. Adjusted EBITDA in 2011 was £1.4 million (2010: £1.0 million).

Profit before tax was £0.1 million (2010: £0.4 million) and profit after tax was £0.03 million (2010: £0.4 million). The Group has utilised tax losses carried forward in several of its subsidiaries and has received an R&D Tax Credit in the UK, the impact of which means that current tax liabilities on profits are minimal. Deferred tax movements, relating primarily to intangible assets, result in a net tax charge to the income statement of £0.1m. The above profit figures for 2011 include non-recurring items relating to the Initial Public Offering ("IPO") in June and the acquisition costs of Realworld and InMaps. Excluding these charges, the adjusted profit after tax was £0.4 million (2010: £0.4 million).

Earnings per share (EPS)

Based on the average number of shares in issue during the year, diluted earnings per share were 0.2 pence (2010: 3.2 pence) and adjusted diluted earnings per share were 5.5 pence (2010: 5.7 pence).

Segmental performance

Revenue from the RTLS Division was £8.7 million, compared with £5.7 million in 2010. This 51% growth in revenues was driven principally by sales to new customers as well as increased penetration into existing customer accounts. The top 10 customers accounted for 66% of the revenue in 2011 (2010: 45%). Revenue from the Geospatial Division was £15.1 million including acquisitions, compared with £12.0 million in 2010. This 26.5% growth in revenues was driven by a number of factors including (i) two significant new customer wins in the USA (Puget Sound Energy and Atmos Energy); (ii) increased products sales; (iii) the impacts of the two acquisitions and (iv) increased engagement with our existing customer base. The top 10 customers accounted for 89% of the revenue in 2011 (2010: 81%).

Balance sheet and cash flow

The Group has a strong balance sheet with Shareholder Funds at 31 December 2011 of £19.2 million, equivalent to 89 pence per share (2010: Shareholder Funds of £11.5 million equivalent to 76 pence per share). The cash position was strengthened by the IPO, such that net cash at 31 December 2011 was £6.0 million (2010: £3.5 million). Funds raised from the IPO have been used to (i) repay the bank loans, (ii) increase the inventory levels of the Groups RTLS products, (iii) fund the acquisitions and (iv) pay for the costs of the IPO.

Operating cash flows before working capital were £1.1 million (2010: £1.0 million). After working capital, cash used by operations was £2.3 million (2010: £0.7 million generated), reflecting increases in inventory levels and trade receivables. Consistent with the Group's defined strategy of investing available funds in organic and inorganic growth opportunities, the Board is not proposing to pay a dividend for 2011 (2010: nil).

Gordon Campbell
Chief Financial Officer
19 March 2012

The cash position was strengthened by the IPO, such that net cash at 31 December 2011 was £6.0 million (2010: £3.5 million).

Board of Directors

Professor Andrew Hopper CBE
Non-Executive Chairman

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 the Professor of Computer Technology 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

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

Gordon Campbell
Chief Financial Officer

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

Peter Harverson
Non-Executive Director

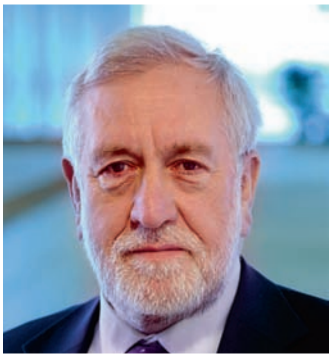
Peter has held a number of senior international sales and marketing roles in the IT industry. These included Regional Director, Intel Corporation and Vice President Europe, Cadence Design Systems. In 1995 he joined Sun Microsystems where he was responsible for the development of the company's European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

J Keith Lomas
Non-Executive Director

Keith has more than eighteen 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

Dick has spent over 30 years in the software industry in Computer aided design (CAD) and Geographic Information Systems (GIS). He co-founded his first company, Cambridge Interactive Systems Limited (CIS) in 1977. CIS was part of what became known as "The Cambridge Phenomenon". Dick was a co-founder of Smallworld in 1988. Dick was Chairman of both CIS and Smallworld. He was the original project manager of PDMS, a core product of AVEVA Group plc and is also a Non-Executive Director of UltraVision CLPL.



Dr Robert Sansom
Non-Executive Director

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 holds a Ph.D. in Computer Science from Carnegie Mellon University and an M.A. in Computer Science from the University of Cambridge.

Paul Taylor
Non-Executive Director

Paul Taylor 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 and, from 1 April 2012, Digital Barriers plc.

Directors' report

The Directors present their annual report on the affairs of the Group together with the audited financial statements for the year to 31 December 2011.

Change of Company name

During the year, the Company changed its name from Ubisense Trading Limited to Ubisense Group plc in preparation for the initial public offering on AIM.

Company's listing

The Company listed on the Alternative Investment Market ('AIM') of the London Stock Exchange on 22 June 2011. Information required by AIM Rule 26 has been provided on the Group's website, www.ubisense.net.

Principal activities and future developments

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

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

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

Further future developments are addressed in the Chairman's Review, Chief Executive Officer's Review and Financial Review on pages 6 to 11.

Review of business

Revenue for the Group was £23.8m (2010: £17.7m). The Group profit after tax was £0.03m (2010: £0.4m). Further analysis of the year's results, as well as the outlook for the coming year, is set out in the Chairman's Review, Chief Executive Officer's Review and Financial Review on pages 6 to 11.

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 £1.4 million (2010: £1.0 million). The Group also monitors the order pipeline and cash balances. At the close of the year the outstanding orders totalled 50% of annual sales (2010: 41%). The closing net cash balance for the Group was £6.0 million (2010: £3.5 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 good progress against the KPIs, especially the order pipeline, compared to budget.

Principal risks and uncertainties

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

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

Technological risks

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

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

Principal risks and uncertainties continued

Reliance on third parties, including manufacturers

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

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

Dependence on key customers

The Group is dependent on a number of key contracts and customer relationships for its current and future growth and development. In the financial year to 31 December 2011 the Group's ten largest customers accounted for 68% of the Group's revenue (2010: 65%). The loss of a major customer could result in a decrease in Group revenues, margins and profitability.

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

Staff recruitment and retention

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

In order to mitigate this risk, the Group has in place appropriate incentivisation structures to attract and retain the calibre of employees necessary to ensure the efficient management and development of the Group.

Growth management and acquisitions

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

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

Dividends

The Directors do not recommend payment of a dividend for the year (2010: £nil).

Capital structure

Details of the shares issued during the year are detailed in Note 21 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

Substantial shareholdings

On 31 January 2012, the Company had been notified of the following significant interests in its ordinary share capital:

	Total holding Number	% of issued share capital
Robert Sansom	2,493,676	11.51%
Fidelity Investments Limited	1,613,322	7.45%
Richard Green	1,543,011	7.12%
David Theriault	1,002,000	4.61%
Amati Global Investors Limited	750,691	3.47%
Newton Investment Management Limited	693,144	3.2%
Arthur Chance	654,695	3.02%

Directors' report continued

Directors

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

G M Campbell
R T Green
P G Harverson
Prof A Hopper
J K Lomas
R G Newell
R Sansom
P Taylor (Appointed 28 February 2011)

Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group plc, at 31 December 2011 and 31 December 2010 were as follows:

	2011 Number	2010 Number
Gordon Campbell	**87,987**	53,817
Richard Green	**1,543,011**	1,323,068
Peter Harverson	**65,161**	54,051
Andrew Hopper	**225,000**	225,000
J Keith Lomas	**47,712**	8,824
Richard Newell	**643,354**	587,000
Robert Sansom	**2,493,676**	1,604,788
Total	**5,105,901**	3,857,348

There has been no change in the interests set out above between 31 December 2011 and 19 March 2012.

Directors' remuneration, share options and loans

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

Directors' indemnity arrangements

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

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

Research and development (R&D)

The Group continues to invest in R&D, spending £2.2 million in its R&D programmes in the year (2010: £1.3 million) of which £1.1 million (2010: £0.4 million) was capitalised. The Group undertakes R&D in both divisions and this is discussed in the Chief Executive's review on page 8.

Intellectual property

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

Employee involvement

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

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

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

Employment policies

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

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

Health and Safety Environment

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

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

Supplier Payment policy and practice

The Group's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier or to ensure the supplier is made aware of the standard payment terms. The Group's normal policy is to pay supplier invoices in accordance with those terms and conditions provided there has been compliance with all trading terms. At 31 December 2011 the Group had an average of 63 days (2010: 45 days) creditors outstanding in trade payables. The Company has no outstanding trade payables at 31 December 2011 (2010: nil).

Donations and community support

The Group made charitable donations during the year of £nil (2010: £nil). There were no donations to political parties. Members of the Group participate actively in the community of entrepreneurial businesses clustered around Cambridge including Cambridge Network and The Judge Business School. Companies within the Group occasionally take students from higher education on work experience programmes as well as occasional international students on placement.

Auditor

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 Auditor's remuneration.

Corporate Governance

The Company's statement on corporate governance can be found in the corporate governance report on pages 18 to 20 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.

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

G M Campbell
Company Secretary
19 March 2012
Ubisense Group plc
Registered number: 05589712

Corporate governance report

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

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

Composition of the Board

The Board comprises the Non-executive Chairman, five Non-executive Directors and two Executive Directors. Biographical details of all members of the Board are set out on pages 12 and 13.

Prior to the flotation of the Company in 2011, Paul Taylor was appointed to the Board. Since his appointment, 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 or share options is Mr Taylor.

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

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

The role of the Board

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

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

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

Summary of Board meeting attendance in 2011

The Board is expected to meet regularly on a formal basis ten times a year. 28 Board meetings were held in 2011. The additional meetings, including subsets of the Board where not all Board members were expected to attend, were required to update on progress and ratify decisions as the Company successfully completed its Initial Public Offering to become listed on AIM and subsequently completed two acquisitions. Attendance at the meetings was as follows:

	Regular meetings	Additional meetings	Total meetings
Gordon Campbell	10 (10)	18 (18)	28 (28)
Richard Green	10 (10)	17 (18)	27 (28)
Peter Harverson	10 (10)	14 (18)	24 (28)
Andrew Hopper	10 (10)	15 (18)	25 (28)
J Keith Lomas	10 (10)	10 (18)	20 (28)
Richard Newell	10 (10)	11 (18)	21 (28)
Robert Sansom	10 (10)	10 (18)	20 (28)
Paul Taylor	8 (8)	13 (17)	21 (25)

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

Board Committees

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

Summary of Committee membership

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

Summary of Committee meeting attendance

	Audit Committee	Nomination Committee	Remuneration Committee
Peter Harverson	–	1 (1)	6 (7)
Andrew Hopper	2 (2)	1 (1)	6 (7)
J Keith Lomas	2 (2)	–	7 (7)
Richard Newell	1 (1)	1 (1)	–
Robert Sansom	–	1 (1)	7 (7)
Paul Taylor	2 (2)	–	7 (7)

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

Corporate governance report continued

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

Audit Committee

The Audit Committee has responsibility for the following matters:

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

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

Nominations Committee

The Nominations 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.

The Committee was constituted on 6 June 2011. Since then, the Committee has met once on a formal basis and no new appointments to the Board were made.

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.

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 loss.

Directors’ responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and 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.

Insofar as each of the Directors are 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 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 auditors' 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 2011 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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

- 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 2011.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
19 March 2012

Consolidated income statement

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Revenue	5	**23,785**	17,697
Cost of sales		**(15,308)**	(11,762)
Gross profit		**8,477**	5,935
Administrative expenses		**(8,188)**	(5,308)
Operating profit	5	**289**	627
Analysed as:			
Adjusted EBITDA		**1,448**	1,041
Depreciation		**(140)**	(97)
Amortisation		**(624)**	(299)
Share-based payments charge		**(24)**	(18)
AIM listing expenses		**(324)**	–
Acquisition costs		**(47)**	–
Operating profit	5	**289**	627
Finance income	8	**37**	5
Finance costs	8	**(185)**	(237)
Profit before tax	9	**141**	395
Income tax	10	**(107)**	3
Profit for the period attributable to the equity shareholders of the Company		**34**	398
Earnings per share (pence)			
Basic	11	**0.2p**	3.3p
Diluted	11	**0.2p**	3.2p

The notes on pages 27 to 51 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Profit for the period		**34**	398
Other comprehensive income:			
Exchange difference on retranslation of net assets and results of overseas subsidiaries	23	**14**	(29)
Total comprehensive income attributable to equity shareholders of the Company		**48**	369

The notes on pages 27 to 51 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2010	235	9,773	961	(4,670)	6,299
Profit for the period	–	–	–	398	398
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	(29)	–	(29)
Total comprehensive income for the year	–	–	(29)	398	369
Reserve credit for equity-settled share-based payment	–	–	18	–	18
Equity component of loans	–	–	3	–	3
Issue of new share capital	69	–	–	–	69
Premium on new share capital	–	4,973	–	–	4,973
Share issue costs	–	(196)	–	–	(196)
Transactions with owners	69	4,777	21	–	4,867
Balance at 31 December 2010	304	14,550	953	(4,272)	11,535
Profit for the period	–	–	–	34	34
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	14	–	14
Total comprehensive income for the year	–	–	14	34	48
Reserve credit for equity-settled share-based payment	–	–	45	–	45
Equity component of loans converted	–	–	(502)	502	–
Issue of new share capital	129	–	–	–	129
Premium on new share capital	–	7,968	–	–	7,968
Share issue costs	–	(487)	–	–	(487)
Transactions with owners	129	7,481	(457)	502	7,655
Balance at 31 December 2011	**433**	**22,031**	**510**	**(3,736)**	**19,238**

The notes on pages 27 to 51 are an integral part of these consolidated financial statements.

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

Consolidated statement of financial position
At 31 December 2011

	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Goodwill	12	**7,418**	6,069
Other intangible assets	13	**2,258**	525
Property, plant and equipment	14	**366**	279
Total non-current assets		**10,042**	6,873
Current assets			
Inventories	15	**1,667**	364
Trade and other receivables	16	**9,498**	6,900
Cash and cash equivalents	17	**6,034**	7,130
Total current assets		**17,199**	14,394
Total assets		**27,241**	21,267
Liabilities			
Current liabilities			
Loans and borrowings	19	**–**	(2,372)
Trade and other payables	18	**(7,294)**	(5,974)
Total current liabilities		**(7,294)**	(8,346)
Non-current liabilities			
Loans and borrowings	19	**–**	(1,246)
Deferred income tax liabilities	10	**(549)**	(140)
Other liabilities	20	**(160)**	–
Total non-current liabilities		**(709)**	(1,386)
Total liabilities		**(8,003)**	(9,732)
Net assets		**19,238**	11,535
Equity attributable to owners of the parent company			
Share capital	21	**433**	304
Share premium account	21	**22,031**	14,550
Other reserves	23	**510**	953
Retained earnings		**(3,736)**	(4,272)
Total equity		**19,238**	11,535

The notes on pages 27 to 51 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 19 March 2012 and signed on its behalf by:

Richard Green
Chief Executive Officer

Gordon Campbell
Chief Financial Officer

The Company's registered number is 05589712.

Consolidated statement of cash flows

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Profit before tax		**141**	395
Adjustments for:			
Depreciation	9,14	**140**	97
Amortisation	9,13	**624**	299
Share-based payments charge	6.2, 22.2	**24**	18
Finance income	8	**(37)**	(5)
Finance costs	8	**185**	237
Foreign exchange differences	9	**12**	(12)
Operating cash flows before working capital movements		**1,089**	1,029
Change in inventories		**(1,303)**	(100)
Change in receivables		**(2,065)**	(3,244)
Change in payables		**(108)**	3,009
Cash (used in)/generated by operations before tax		**(2,387)**	694
Net income taxes received		**102**	32
Net cash flows from operating activities		**(2,285)**	726
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	26	**(1,600)**	–
Purchases of property, plant and equipment		**(256)**	(218)
Purchases of intangible assets		**(1,130)**	(400)
Interest received		**33**	5
Net cash flows from investing activities		**(2,953)**	(613)
Cash flows from financing activities			
Proceeds from the issue of borrowings		**–**	150
Repayment of borrowings		**(1,014)**	(255)
Interest paid		**(47)**	(108)
Proceeds from the issue of share capital		**5,238**	4,846
Net cash flows from financing activities		**4,177**	4,633
Net (decrease)/increase in cash and cash equivalents		**(1,061)**	4,746
Cash and cash equivalents at start of period		**7,130**	2,396
Exchange differences on cash and cash equivalents		**(35)**	(12)
Cash and cash equivalents at end of period	17	**6,034**	7,130

The notes on pages 27 to 51 are an integral part of these Consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2011

1 General information

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

The Company is a public limited company which is listed on the Alternative Investment Market ("AIM") of the London Stock Exchange (UBI.L) and is incorporated and domiciled in the United Kingdom. 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, 90 St. Andrew's Road, Chesterton, Cambridge CB4 1DL.

The Group has operations in the UK, US, Canada, France, Germany, Korea and Singapore and sells mainly in the North America and Europe.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2012.

2 New accounting standards

In 2011, several new, revised and amended standards and interpretations became effective. These are IAS 24 (revised) "Related party disclosures", IFRS 1 (amendment) "First time adoption: financial instrument disclosure", IAS 32 (amendment) "Financial instruments: Presentation on classification of rights issues", IFRIC 19 "Extinguishing financial liabilities with equity instruments", IFRIC 14 "Prepayments of a minimum funding requirement", and Improvements to IFRSs (2010). The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group.

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU). All standards and interpretations are not expected to have any significant impact on the financial statements, in their periods of initial application.

Number	Title	Effective for accounting periods beginning on or after
IFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
IFRS 7 (amendment)	Financial instruments: Disclosures on derecognition	1 July 2011
IAS 1 (amendment)	Presentation of financial statements – Other comprehensive income	1 July 2012
IAS 12 (amendment)	Deferred Tax – Recovery of Underlying Assets	1 January 2012
IFRS 9	Financial instruments on classification and measurement"	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IAS 19 (revised)	Employee benefits	1 January 2013
IAS 27 (revised)	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IFRS 9	Financial instruments – Classification and measurement	1 January 2015
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013

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

Going concern basis

The Group's 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 2011

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.

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 non-material exchange differences are included in the income statement within "other administrative expenses". Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(c) Consolidation

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

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

Segment reporting

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

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

Revenue recognition

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

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

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

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

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

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

3 Summary of significant accounting policies continued

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.

Operating lease income and expense

(a) Rental expense

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

(b) Lease incentives

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

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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

3 Summary of significant accounting policies continued

Business combinations continued

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 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.

An internally generated intangible asset arising from the Group's development activities is recognised only 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 of direct labour costs, are amortised on a straight-line basis over their useful economic lives on completion of the asset. Amortisation is shown within administrative expenses in the income statement. The estimated useful lives of current development projects are three years. Upon completion the assets are subject to impairment testing. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets

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

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

Property, plant and equipment

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

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

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

Impairment of non-financial assets

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

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

3 Summary of significant accounting policies continued

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 product 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.

Compound instruments

The Group applied the requirements of IAS 32 “Financial Instruments” to account for the convertible and bank loans. The bank loan was repaid and the convertible loans were either converted or repaid prior to the initial public offering on 22 June 2011. These loans were regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component was estimated using the prevailing market interest rate for a similar debt instrument without a conversion feature. The difference between the loan balance and the fair value assigned to the liability component, representing the embedded equity element (option to convert the liability into equity of the Group or warrants over shares in the Company), was accounted for as an equity instrument.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar debt instrument to the liability component. The difference between this amount and the interest paid is added to the carrying amount of the loan.

On conversion of debt to equity the carrying value of the debt instrument is transferred to equity and no gain or loss arises on conversion.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4 Critical accounting estimates and judgements

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

Impairment of goodwill and other intangible assets

The Group tests goodwill for impairment annually. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The Group uses pre-tax discount rates between 9.7% and 12.5% for this purpose. The carrying amount of goodwill at 31 December 2011 is £7,418,000. Further consideration of the impairment of goodwill is included in note 12.

Capitalisation of development costs

The point at which development costs meet the criteria for capitalisation is critically dependent on management’s judgement of the point at which technical and commercial feasibility is demonstrable. The carrying amount of capitalised development costs at 31 December 2011 is £1,127,000.

Revenue recognition

Significant management judgement is applied in determining the allocation and timing of the recognition of revenue on contracts. In this process management takes into account milestones, hardware supplied, actual work performed and further obligations and costs expected to complete the work. The carrying amount of amounts recoverable on contracts at 31 December 2011 is £1,588,000.

Provision for impairment of trade receivables

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

4 Critical accounting estimates and judgements continued

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 approach but this is reliant upon certain judgements which they determine are reasonable by reference to companies in similar industries.

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

5 Segment information

5.1 Operating segments

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

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

Each of these operating segments is managed separately as each deal with different technologies and predominantly different customer bases. The performance of the operating segments is assessed on a measurement of adjusted EBITDA. The measurement basis excludes depreciation, amortisation, share-based payments charge, non-recurring expenditure, finance income and expense and income taxes. Other administrative expenses for the year ended 31 December 2010 have been reclassified to be consistent with current internal management reporting. The effect on the period ended 31 December 2010 was to decrease administrative expenses for RTLS by £727,000 and increase Geospatial and Central by £66,000 and £661,000 respectively.

Year ended 31 December 2011	RTLS £'000	Geospatial £'000	Central £'000	Total £'000
Revenue	8,650	15,135	–	23,785
Cost of sales	(4,012)	(11,296)	–	(15,308)
Gross profit	4,638	3,839	–	8,477
Other administrative expenses	(3,936)	(738)	(2,355)	(7,029)
Adjusted EBITDA	702	3,101	(2,355)	1,448
Depreciation	–	–	(140)	(140)
Amortisation	(437)	(169)	(18)	(624)
Share-based payments charge	–	–	(24)	(24)
AIM listing expenses	–	–	(324)	(324)
Acquisition costs	–	–	(47)	(47)
Operating profit/(loss)	265	2,932	(2,908)	289
Finance income	–	–	37	37
Finance costs	–	–	(185)	(185)
Profit/(loss) before tax	265	2,932	(3,056)	141
Income tax	–	–	(107)	(107)
Profit/(loss) after tax	265	2,932	(3,163)	34

5 Segment information continued

5.1 Operating segments continued

Year ended 31 December 2010	RTLS £'000	Geospatial £'000	Central £'000	Total £'000
Revenue	5,729	11,968	–	17,697
Cost of sales	(2,520)	(9,242)	–	(11,762)
Gross profit	3,209	2,726	–	5,935
Other administrative expenses	(3,168)	(229)	(1,497)	(4,894)
Adjusted EBITDA	41	2,497	(1,497)	1,041
Depreciation	(2)	–	(95)	(97)
Amortisation	(299)	–	–	(299)
Share-based payments charge	–	–	(18)	(18)
Operating (loss)/profit	(260)	2,497	(1,610)	627
Finance income	–	–	5	5
Finance costs	–	–	(237)	(237)
(Loss)/(profit) before tax	(260)	2,497	(1,842)	395
Income tax	–	–	3	3
Profit after tax	(260)	2,497	(1,839)	398

5.2 Geographical areas

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

	Revenue		Non-current assets	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
UK	**1,471**	478	**1,760**	598
Germany	**11,469**	8,294	**224**	165
US	**8,853**	6,436	**635**	41
Other	**1,992**	2,489	**5**	–
Total	**23,785**	17,697	**2,624**	804

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

During 2011, revenues of £5.3 million (2010: £3.7 million) and £2.1 million (2010: £2.0 million) respectively were derived from two Geospatial customers based in Germany and revenue of £2.6 million (2010: £0.6 million) from one RTLS customer based in both Germany and the US.

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

6 Employee information

6.1 Employee numbers

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

	2011 Number	2010 Number
By activity		
Technical consultants	**75**	60
Sales and marketing	**28**	18
Research and development	**21**	12
Administration	**14**	9
Total average number of employees	**138**	99
By segment		
Geospatial	**64**	45
RTLS	**60**	45
Central	**14**	9
Total average number of employees	**138**	99

The total number of employees at 31 December 2011 was 172 (2010: 113).

6.2 Employee benefits

	Notes	2011 £'000	2010 £'000
Wages and salaries		**10,236**	6,724
Social security costs		**979**	679
Contributions to defined contribution pension arrangements		**419**	307
Share-based payments	22.2	**24**	18
Total aggregate employee benefits		**11,658**	7,728

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 14 key management personnel (2010: 13). The compensation paid or payable to key management for employee services is shown below:

	2011 £'000	2010 £'000
Short-term employee benefits		
Wages and salaries	**925**	746
Social security costs	**59**	48
Other benefits	**29**	12
	1,013	806
Post-employment benefits		
Contributions to defined contribution benefit pension arrangements	**74**	68
Share-based payments		
Equity-settled share-based payments	**11**	6
Total key management compensation	**1,098**	880

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 2011 £'000**	Total 2010 £'000
Gordon Campbell*	89	1	1	91	15	**106**	99
Richard Green*	115	5	4	124	13	**137**	131
Peter Harverson	16	–	–	16	–	**16**	16
Andrew Hopper	15	–	–	15	–	**15**	15
J Keith Lomas	6	–	–	6	–	**6**	6
Richard Newell**	–	–	–	–	–	**–**	–
Robert Sansom**	–	–	–	–	–	**–**	–
Paul Taylor***	13	–	–	13	–	**13**	–
Total	**254**	**6**	**5**	**265**	28	**293**	267

* 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 £125,000; and Gordon Campbell £95,000.

** Richard Newell and Robert Sansom have waived their entitlement to annual remuneration of £3,000 as per their letters of appointment for the years 31 December 2011 and 31 December 2010.

*** Remuneration from date of appointment on 28 February 2011.

7.2 Directors' interests – share options

Director	Award date Year	Vests Years	Expires Year	Exercise price £	Awards outstanding at 1 January 2011 Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	**Awards outstanding at 31 December 2011 Number**	Awards exercisable at 31 December 2011 Number
Gordon Campbell	2010	2011–13	2020	0.14	120,500	–	–	–	**120,500**	40,168
	2011	2012–14	2021	1.05	–	32,500	–	–	**32,500**	–
					120,500	32,500	–	–	**153,000**	40,168
Richard Green	2010	2011–13	2020	0.14	76,278	–	–	–	**76,278**	25,427
	2011	2012–14	2021	1.05	–	100,000	–	–	**100,000**	–
					76,278	100,000	–	–	**176,278**	25,427
Peter Harverson	2010	2011–13	2020	0.14	91,333	–	–	–	**91,333**	30,445
Andrew Hopper	2010	2011–13	2020	0.14	20,278	–	–	–	**20,278**	6,760
Richard Newell	2010	2011–13	2020	0.14	1,056	–	–	–	**1,056**	352
Total					**309,445**	**132,500**	**–**	**–**	**441,945**	**103,152**

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 2011 and 19 March 2012.

The market price of the Company's shares at the end of the financial year was £1.94. The range of market prices during the year was between £1.47 and £2.32.

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

7 Directors' remuneration and interests continued

7.3 Directors' interests – shares

Directors' interests in the ordinary shares of Ubisense Group plc, at 31 December 2011 and 31 December 2010, were as follows.

	2011 Number	2010 Number
Gordon Campbell	**87,987**	53,817
Richard Green	**1,543,011**	1,323,068
Peter Harverson	**65,161**	54,051
Andrew Hopper	**225,000**	225,000
J Keith Lomas	**47,712**	8,824
Richard Newell	**643,354**	587,000
Robert Sansom	**2,493,676**	1,604,788
Total	**5,105,901**	3,857,348

There has been no change in the interests set out above between 31 December 2011 and 19 March 2012.

7.4 Directors' interests – loans

Some of the Directors had beneficial interests in the Company's convertible loans as listed below. All of the Directors' interests in convertible loans were converted into ordinary shares in the year ahead of the initial public offering.

	At 1 January 2011 £	Interest accrued £	Interest paid £	Converted into ordinary shares £	At 31 December 2011 £
Gordon Campbell	30,753	393	(393)	(30,753)	**–**
Richard Green	107,949	927	(927)	(107,949)	**–**
Peter Harverson	9,999	100	(100)	(9,999)	**–**
J Keith Lomas	34,999	319	(319)	(34,999)	**–**
Richard Newell	49,999	500	(500)	(49,999)	**–**
Robert Sansom	799,999	8,000	(8,000)	(799,999)	**–**
Total	1,033,698	10,239	(10,239)	(1,033,698)	**–**

8 Finance income and costs

	2011 £'000	2010 £'000
Interest income from cash and cash equivalents	**37**	5
Finance income	**37**	5
Interest payable – bank	**(26)**	(43)
Interest payable – other loans	**(159)**	(194)
Finance costs	**(185)**	(237)
Net finance costs	**(148)**	(232)

Finance costs for the year ended 31 December 2011 includes an imputed non-cash amount of £138,000 relating to interest as a result of conversion of the convertible loans into shares and exercise of the warrants attaching to the bank loan (see note 19).

9 Profit before tax: analysis of expenses by nature

9.1 Expenses by nature

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

	Notes	2011 £'000	2010 £'000
Amortisation of intangibles	13	**624**	299
Depreciation of owned property, plant and equipment	14	**140**	97
Operating lease rental charges – land and buildings		**320**	359
Operating lease rental charges – other		**134**	101
Research and development costs expensed		**1,109**	939
Net foreign currency gains		**(12)**	(80)
AIM listing expenses		**324**	–
Acquisition costs	26	**47**	–
Auditors' remuneration	9.2	**165**	68

9.2 Auditors' remuneration

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

	Notes	2011 £'000	2010 £'000
Fees payable to the Group's auditors for the audit of the Company and Group financial statements			
– Parent company and consolidated financial statements		**13**	10
– Financial statements of subsidiaries, pursuant to legislation		**27**	22
		40	32
Fees payable to the Group's auditors for other services:			
Tax services		**5**	3
Other services		**120**	33
		125	36
Auditors' remuneration	9.1	**165**	68

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

10 Income tax

10.1 Income tax expense

	2011 £'000	2010 £'000
Current tax		
UK corporation tax	**–**	23
Foreign tax	**(9)**	–
Research and development tax credits – prior years	**(124)**	(47)
Total current tax credit	**(133)**	(24)
Deferred tax		
Origination and reversal of temporary differences	**240**	21
Total deferred tax expense	**240**	21
Total income tax expense/(credit)	**107**	(3)

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

10 Income tax continued

10.1 Income tax expense continued

The tax expense (2010: credit) differs from the standard rate of corporation tax in the UK for the year of 26% (2010: 28%) for the following reasons:

	2011 £'000	2010 £'000
Profit before tax	**141**	395
Profit before tax multiplied by the standard rate of corporation tax in the UK of 26% (2010: 28%)	**37**	111
Tax effects of:		
Expenses not deductible for tax purposes	**113**	37
Creation/(utilisation) of tax losses	**14**	(73)
Research and development tax credits – prior years	**(124)**	(47)
Differential on overseas tax rates	**(8)**	(5)
Remeasurement of deferred tax – change of rate	**(5)**	–
Other temporary timing differences	**80**	(26)
Total income tax expense/(credit)	**107**	(3)

10.2 Factors that may affect future tax charges

The Group has tax losses of £2.9 million (2010: £3.0 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.

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	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
At 1 January	**–**	–	**(140)**	(119)
Arising on acquisition of subsidiaries	**119**	–	**(288)**	–
Net deferred tax charge to the income statement	**(119)**	–	**(121)**	(21)
At 31 December	**–**	–	**(549)**	(140)

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

	2011 £'000	2010 £'000
Development costs capitalised	**(293)**	(140)
Intangible assets recognised on acquisition of subsidiaries	**(256)**	–
Total deferred income tax liabilities	**(549)**	(140)

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:

	2011 £'000	2010 £'000
Tax losses carried forward	**851**	804
Equity-settled share options temporary differences	**168**	182
Other temporary differences	**–**	(1)
Total unrecognised deferred tax assets	**1,019**	985

11 Earnings per share

	2011	2010
Earnings		
Profit for the period (£'000)	**34**	398
Earnings for the purposes of diluted earnings per share (£'000)	**34**	398
Number of shares		
Basic weighted average number of shares ('000)	**18,897**	12,034
Effect of dilutive potential ordinary shares:		
– share options ('000)	**334**	444
– warrants ('000)	**59**	107
Diluted weighted average number of shares ('000)	**19,290**	12,585
Basic earnings per share (pence)	**0.2p**	3.3p
Diluted earnings per share (pence)	**0.2p**	3.2p

Basic earnings per share is calculated by dividing profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. For diluted earnings per share, the weighted average number of shares is adjusted to allow for the effects of dilutive share options and warrants.

The Group also presents an adjusted diluted earnings per share figure which excludes amortisation, share-based payments charge, AIM listing expenses and acquisition costs from the measurement of profit for the period.

Adjusted diluted earnings per share	Note	2011	2010
Earnings for the purposes of diluted earnings per share (£'000)		**34**	398
Adjustments:			
Reversal of amortisation (£'000)	9,13	**624**	299
Reversal of share-based payments charge (£'000)	9	**24**	18
Reversal of AIM listing expenses (£'000)		**324**	–
Reversal of acquisition costs (£'000)		**47**	–
Net adjustments (£'000)		**1,019**	317
Adjusted earnings (£'000)		**1,053**	715
Adjusted diluted earnings per share (pence)		**5.5p**	5.7p

12 Goodwill

	Note	Goodwilll £'000
Balance at 1 January 2010 and 31 December 2010		6,069
Acquisition of subsidiaries	26	1,349
Balance at 31 December 2011		**7,418**

The goodwill arising in the year relates to the acquisitions of Integrated Mapping Solutions, Inc. and Realworld OO Systems Limited which is further described in note 26.

Impairment testing for cash-generating units containing goodwill

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

	2011 £'000	2010 £'000
RTLS	**3,256**	3,256
Geospatial	**4,162**	2,813
Total	**7,418**	6,069

The recoverable amounts of all CGUs have been determined from value-in-use calculations based on 5 year forecasts projected from the 2012 annual operating plan approved by the Board for each CGU with an assumed terminal growth rate of nil and no improvement in relative operating margin during or after the forecast period. This is considered prudent when compared to recent experience and current expectations of the long-term industry growth rate for both CGUs.

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

12 Goodwill continued

Impairment testing for cash-generating units containing goodwill continued

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

Revenue growth assumptions are based on the annual operating plan taking into account industry growth rates and Ubisense's historical experience in the context of the wider industry and economic conditions. The revenue growth rate for RTLS is assumed to be 20% (actual growth in 2011 was 51.0%) with the division expected to continue at above-average rates for the foreseeable future as a result of significant investment in research and development and a growing opportunity customer base and sector presence. The growth rate for Geospatial is assumed to be 10% (actual growth in 2011 was 26.5%) reflecting steady growth in a more mature market where the division is increasing its presence in key sectors where it has acknowledged expertise.

The Board has considered reasonable possible sensitivities in key assumptions on which the value-in-use calculations are based. For RLTS, sensitivity analysis shows that if the growth rate was 7%, or if the discount rate is increased in isolation to 17%, the estimated recoverable amount is equal to carrying value. For Geospatial, if the growth rate reduced to 0%, or if the discount factor increased to 20%, this would not cause the carrying value to exceed estimated recoverable amount.

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

13 Other intangible assets

	Capitalised development costs £'000	Software £'000	Acquired software products £'000	Acquired customer relationships and order backlog £'000	Total £'000
Cost					
At 1 January 2010	1,087	–	–	–	1,087
Additions	389	11	–	–	400
At 31 December 2010	1,476	11	–	–	1,487
Reclassification	–	56	–	–	56
Additions	1,103	225	–	–	1,328
Acquisition of subsidiaries	–	3	529	449	981
At 31 December 2011	**2,579**	**295**	**529**	**449**	**3,852**
Accumulated amortisation					
At 1 January 2010	663	–	–	–	663
Charge for the year	295	4	–	–	299
At 31 December 2010	958	4	–	–	962
Reclassification	–	8	–	–	8
Charge for the year	494	18	44	68	624
At 31 December 2011	**1,452**	**30**	**44**	**68**	**1,594**
Net book amount					
At 31 December 2011	**1,127**	**265**	**485**	**381**	**2,258**
At 31 December 2010	518	7	–	–	525

The acquired software products, customer relationships and order backlog additions arising in the year relate to the acquisitions of Integrated Mapping Solutions, Inc. and Realworld OO Systems Limited which are further described in note 26.

14 Property, plant and equipment

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2010	309	334	643
Effect of movements in exchange rates	(3)	(5)	(8)
Additions	18	200	218
Disposals	(150)	(89)	(239)
At 31 December 2010	174	440	614
Effect of movements in exchange rates	(3)	(5)	(8)
Reclassification	–	(56)	(56)
Additions	47	213	260
Acquisition of subsidiaries	3	14	17
Disposals	–	(1)	(1)
At 31 December 2011	**221**	**605**	**826**
Accumulated depreciation			
At 1 January 2010	218	263	481
Effect of movements in exchange rates	(2)	(3)	(5)
Charge for the year	29	68	97
Disposals	(150)	(88)	(238)
At 31 December 2010	95	240	335
Effect of movements in exchange rates	(1)	(5)	(6)
Reclassification	–	(8)	(8)
Charge for the year	34	106	140
Disposals	–	(1)	(1)
At 31 December 2011	**128**	**332**	**460**
Net book amount			
At 31 December 2011	**93**	**273**	**366**
At 31 December 2010	79	200	279

15 Inventories

	2011 £'000	2010 £'000
Finished goods	**1,667**	364

The cost of inventories recognised as an expense and included in "cost of sales" amounted to £1,426,000 (2010: £1,018,000).

16 Trade and other receivables

	Notes	**2011 £'000**	2010 £'000
Trade receivables, gross		**7,541**	5,469
Allowances for credit losses	16.2	**(7)**	(83)
Trade receivables net		**7,534**	5,386
Amounts recoverable on contracts		**1,588**	555
Other receivables		**21**	21
Prepayments and accrued income		**314**	816
VAT and taxation receivable		**41**	122
Total trade and other receivables		**9,498**	6,900

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

16 Trade and other receivables continued

16.1 Ageing of past due but not impaired receivables

	2011 £'000	2010 £'000
Neither past due nor impaired	**6,120**	3,030
Past due but not impaired:		
0 to 90 days overdue	**881**	2,113
More than 90 days overdue	**533**	243
Total	**7,534**	5,386

16.2 Movement in allowance for doubtful debts

	2011 £'000	2010 £'000
At 1 January	**83**	125
Exchange differences	**(1)**	–
Amounts written off as uncollectable	**–**	(52)
Amounts recovered in the year	**(82)**	–
Allowance made	**7**	10
At 31 December	**7**	83

17 Cash and cash equivalents

	2011 £'000	2010 £'000
Cash at bank and in hand	**3,367**	7,130
Short-term bank deposits	**2,667**	–
Cash and cash equivalents	**6,034**	7,130

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:

	2011 £'000	2010 £'000
British Pound (GBP)	**3,939**	5,424
Euro (EUR)	**1,619**	1,023
US Dollar (USD)	**414**	344
Canadian Dollar (CAD)	**62**	339
Cash and cash equivalents	**6,034**	7,130

18 Trade and other payables

	Note	2011 £'000	2010 £'000
Payments received on account		**1,995**	2,178
Trade payables		**2,110**	1,945
Trade accruals		**1,633**	933
Current tax liability		**–**	8
Other taxation and social security		**817**	717
Other payables		**339**	193
Other liabilities – contingent consideration	26.2	**400**	–
Total trade and other payables		**7,294**	5,974

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

The current element of the contingent consideration relates to the acquisition of Realworld OO Systems Limited in the year, which is further described in note 26.

19 Loans and borrowings

	2011 £'000	2010 £'000
Non-current		
Bank loan	–	492
Convertible loan	–	754
Total non-current loans and borrowings	–	1,246
Current		
Bank loan	–	398
Convertible loan	–	1,974
Total current loans and borrowings	–	2,372
Total loans and borrowings	–	3,618

During the period, the bank loan was repaid in full. Of the convertible loan, £2,364 was repaid with the remainder converted into ordinary shares (see note 21).

20 Other liabilities

	Note	2011 £'000	2010 £'000
Other liabilities – contingent consideration	26.2	**160**	–

The non-current element of the contingent consideration relates to the acquisition of Realworld OO Systems Limited in the year, which is further described in note 26.

21 Share capital and premium

	Number of ordinary shares of £0.02 each	Share capital £'000	Share premium £'000	Total £'000
Balance at 1 January 2010	11,755,265	235	9,773	10,008
Share issue	3,401,360	68	4,932	5,000
Share issue costs	–	–	(196)	(196)
Issued under share-based payment plans	26,500	–	16	16
Issued on conversion of convertible loan	28,365	1	25	26
Change in year	3,456,225	69	4,777	4,846
Balance at 31 December 2010	15,211,490	304	14,550	14,854
Share issue	2,777,778	56	4,944	5,000
Share issue costs	–	–	(486)	(486)
Issued under share-based payment plans	376,308	8	125	133
Issued on conversion of convertible loan	3,176,772	63	2,796	2,859
Issued on exercise of warrants	115,350	2	102	104
Change in year	6,446,208	129	7,481	7,610
Balance at 31 December 2011	**21,657,698**	**433**	**22,031**	**22,464**

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

During the period, the Company issued 6,446,208 shares, increasing the total number of shares in issue from 15,211,490 to 21,657,698 as follows:

- 2,777,778 shares as a result of new share subscriptions at £1.80 per share for total cash consideration of £5,000,000, with share issue costs of £486,000 charged against the share premium account and listing expenses of £324,000 charged to the income statement. Included in the share issue costs charged to the share premium account is an amount of £22,000 relating to share-based payments in respect of warrants granted to professional advisers in lieu of fees;
- 376,308 shares as a result of options exercised with a weighted average exercise price of £0.36 per share for total cash consideration of £134,099;
- 3,176,772 shares as a result of the convertible loans being converted at £0.90 per share for total loan value converted of £2,859,095; and
- 115,350 shares as a result of exercise of warrants entitled under the bank loan at £0.90 per share for cash consideration of £103,815.

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

22 Share-based payments: options and warrants

22.1 Equity-settled share-based payment arrangements

a) Share option plans

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

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

b) Warrants

During 2011, the Group granted warrants to a professional advisor in lieu of fees. The warrants were granted at a subscription price equal to the market price of the shares under warrant at the date of the grant. The warrants are exercisable immediately and have a contractual life of 18 months from the date of grant after which they expire if unexercised.

The services received have been measured by reference to the fair value of the warrants granted as the fair value of the services received cannot be reliably estimated as the number of warrants granted was on a basis of 0.5% of the Company's share capital as a result of the placing on 22 June 2011. The expense of £22,000 was included in the share issue costs written off to the share premium account.

22.2 Analysis of amounts recognised in the financial statements

a) Analysis of amounts recognised in the consolidated income statement

	2011 £'000	2010 £'000
Total share-based payments charge recognised in operating profit	**24**	18

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

	2011 £'000	2010 £'000
Net credit to the share-based payments reserve	**46**	18
Charge to the share premium account	**(22)**	–
Net share-based payments credit recognised in equity	**24**	18

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

	2011 £'000	2010 £'000
Cumulative reserve credit for share-based payments	**591**	546

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

Arrangement	Award date Year	Vests Years	Expires Year	Exercise price £	Awards outstanding at 1 January 2011 Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	**Awards outstanding at 31 December 2011 Number**	Awards exercisable at 31 December 2011 Number
Options	2006	2007–09	2016	0.57	131,000	–	(131,000)	–	**–**	–
	2006	2007–09	2016	0.77	37,000	–	(21,500)	(15,500)	**–**	–
	2006	2007–09	2016	0.90	19,250	–	(5,250)	(11,500)	**2,500**	2,500
	2007	2008–10	2017	0.90	8,750	–	(7,200)	(1,250)	**300**	300
	2008	2009–11	2018	0.90	3,500	–	(1,850)	(1,000)	**650**	650
	2009	2009	2019	0.90	5,021	–	(564)	–	**4,457**	4,457
	2010	2011–13	2020	0.14	1,634,881	–	(208,944)	(21,290)	**1,404,647**	335,389
	2011	2012–14	2021	1.05	–	491,300	–	(2,500)	**488,800**	–
	2011	2012–14	2021	1.98	–	32,532	–	–	**32,532**	–
Options					1,839,402	523,832	(376,308)	(53,040)	**1,933,886**	343,296
Warrants	2011	2011	2012	1.80	–	107,109	–	–	**107,109**	107,109
Total					**1,839,402**	**630,941**	**(376,308)**	**(53,040)**	**2,040,995**	**450,405**
Weighted average exercise price (pence)					0.20p	0.41p	0.36p	0.51p	**0.23p**	0.55p

22 Share-based payments: options and warrants continued

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

The weighted average share price during the year for options exercised was £1.95 (2010: £0.90).

During 2010, 1,602,131 options were replaced following an agreed repricing with HM Revenue & Customs. The replacement options vest over the dates 18 March 2011 and 18 March 2012 and were accounted for as a modification.

22.4 Principal assumptions

The fair value of share-based payments grants has been valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. Expected volatility was determined based on the historic volatility of comparable companies. The expected life is the expected period from option to exercise based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. The risk-free rate of return is an average yield on the zero-coupon UK government bond in issue at the date of grant with a similar life to the option or warrant.

The following assumptions were used in the model for options and warrants granted during the years ended 31 December 2011 and 31 December 2010:

Instrument	Option	Warrant	Option	Option	Option
Number granted	32,532	107,109	491,300	12,200	22,350
Grant date	26 September 2011	22 June 2011	16 May 2011	19 September 2010	18 March 2010
Share price at grant date (£)	1.98	1.80	1.05	0.14	0.14
Exercise price (£)	1.98	1.80	1.05	0.14	0.14
Fair value per option (£)	0.31	0.20	0.18	0.03	0.03
Expected life (years)	3.0	1.5	3.0	3.0	3.0
Expected volatility (%)	20.00	20.00	20.00	20.00	20.00
Risk-free interest rate (%)	1.40	2.03	2.30	5.00	5.00
Expected dividends expressed as a dividend yield (%)	0.00	0.00	0.00	0.00	0.00

23 Other reserves

	Equity component of Convertible loans and warrants £'000	Share-based payment reserve £'000	Translation reserve £'000	Total £'000
Balance at 1 January 2010	499	528	(66)	961
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	(29)	(29)
Reserve credit for equity-settled share-based payment	–	18	–	18
Equity component of loans	3	–	–	3
Balance at 31 December 2010	502	546	(95)	953
Exchange difference on retranslation of net assets and results of overseas subsidiaries	–	–	14	14
Reserve credit for equity-settled share-based payment	–	45	–	45
Equity component of loans converted	(502)	–	–	(502)
Balance at 31 December 2011	**–**	**591**	**(81)**	**510**

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

24 Operating lease commitments

Leases as lessee

At 31 December 2011, 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 annual commitment for future minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
No later than one year	**326**	307	**125**	92
Later than one year and no later than five years	**635**	148	**95**	96
Later than five years	**535**	–	**–**	–
Total	**1,496**	455	**220**	188

25 Principal subsidiaries

The Company's subsidiary undertakings at 31 December 2011 are shown below. All are included in the Group financial statements and wholly owned directly by the Company. All subsidiaries prepare accounts up to 31 December each year except for Realworld OO Systems Limited which prepares accounts up to 31 March.

Subsidiary	Country of incorporation	Principal activity
Ubisense Limited	UK	Location solutions
Ubisense AG	Germany	Location solutions
Ubisense SAS	France	Location solutions
Ubisense, Inc.	US	Location solutions
Ubisense Solutions, Inc.	Canada	Location solutions
Integrated Mapping Services, Inc.	US	Location solutions
Realworld OO Systems Limited	UK	Location solutions

26 Business combinations

26.1 Subsidiaries acquired

Subsidiary	Country of incorporation	Principal activity	Date of acquisitions	Proportion of equity interest acquired
Integrated Mapping Services, Inc.	US	Location solutions	26 September 2011	100%
Realworld OO Systems Limited	United Kingdom	Location solutions	4 October 2011	100%

Integrated Mapping Services, Inc. ("InMaps") and Realworld OO Systems Limited ("Realworld") were acquired to continue the expansion of the Group's Geospatial division. Both InMaps and Realworld are location solutions businesses providing geospatial software products and consulting, the former with a focus on the electric and gas sector, the latter on the telecommunications sector. The acquisitions will enhance the Group's product range, product development capability, sector presence and geographical footprint.

26.2 Consideration transferred

	InMaps £'000	Realworld £'000	**Total £'000**
Cash consideration paid	393	1,250	**1,643**
Contingent cash consideration arrangement	–	560	**560**
Consideration transferred	393	1,810	**2,203**

Under the contingent cash consideration arrangement, the Group is required to pay additional amounts to the vendors of Realworld based on the achievement of two separate performance milestones that may arise between 2012 and 2013 with a combined undiscounted range of outcomes between nil and £1,150,000. A liability of £560,000 was recognised at the acquisition date, based on management's best estimate of the probability-adjusted expected cash outflow from the arrangement. As at 31 December 2011 the amount recognised for this arrangement was unchanged based on the most recent management estimates.

26 Business combinations continued

26.2 Consideration transferred continued

The maturity of contingent consideration is as follows:

	Notes	2011 £'000	2010 £'000
Non-current	20	**160**	–
Current	18	**400**	–
Total		**560**	–

Acquisition related costs amounting to £47,000 (InMaps: £16,000; Realworld: £31,000) have been excluded from the consideration transferred and have been recognised as an expense in the current year within the "administrative expenses" line item in the consolidated income statement.

26.3 Assets acquired and liabilities recognised at the date of acquisition

	InMaps £'000	Realworld £'000	Total £'000
Assets			
Non-current assets			
Software products	191	338	**529**
Customer relationships	184	218	**402**
Order backlog	11	36	**47**
Property, plant and equipment	11	8	**19**
Deferred income tax assets	32	88	**120**
Total non-current assets	429	688	**1,117**
Current assets			
Trade and other receivables	83	379	**462**
Cash and cash equivalents	32	11	**43**
Total current assets	115	390	**505**
Total assets	544	1,078	**1,622**
Liabilities			
Current liabilities			
Loans and borrowings	(36)	–	**(36)**
Trade and other payables	(51)	(307)	**(358)**
Total current liabilities	(87)	(307)	**(394)**
Non-current liabilities			
Loans and borrowings	(86)	–	**(86)**
Deferred income tax liabilities	(134)	(154)	**(288)**
Total non-current liabilities	(220)	(154)	**(374)**
Total liabilities	(307)	(461)	**(768)**
Fair value of identifiable net assets acquired	237	617	**854**

The fair value of trade and other receivables of £462,000 includes trade receivables with a fair value and gross contractual value of £415,000 (InMaps: £80,000; Realworld: £335,000), all of which is expected to be collectable.

Notes to the consolidated financial statements continued

For the year ended 31 December 2011

26 Business combinations continued

26.4 Goodwill arising on acquisitions

	InMaps £'000	Realworld £'000	Total £'000
Consideration transferred	393	1,810	**2,203**
Less: fair value of identifiable net assets acquired	(237)	(617)	**(854)**
Goodwill arising on acquisitions	156	1,193	**1,349**

Goodwill arose on the acquisitions of InMaps and Realworld in respect of the benefits of highly knowledgeable workforces, 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 has been allocated to the Geospatial segment and is not expected to be deductible for tax purposes.

26.5 Net cash outflow on acquisition of subsidiaries

	InMaps £'000	Realworld £'000	Total £'000
Cash consideration paid	393	1,250	**1,643**
Less: cash and cash equivalent balances acquired	(32)	(11)	**(43)**
Net cash outflow on acquisition of subsidiaries	361	1,239	**1,600**

26.6 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	InMaps £'000	Realworld £'000	Total £'000
Revenue	23,022	78	685	**23,785**
Adjusted EBITDA	1,295	(66)	219	**1,448**
Profit/(loss) before tax	100	(103)	144	**141**

If the acquisitions were effective from 1 January 2011, the Group's estimated results would have been as follows:

	Before acquisitions £'000	InMaps £'000	Realworld £'000	Total £'000
Revenue	23,022	435	2,080	**25,537**
Adjusted EBITDA	1,295	(96)	(153)	**1,046**
Profit/(loss) before tax	100	(133)	(228)	**(261)**

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's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

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.

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:

	US Dollars		Euros	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Assets	**539**	330	**485**	351
Liabilities	**(7)**	(64)	**–**	–

27.3 Foreign currency sensitivity analysis

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

	US Dollars		Euros	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Effect of an 5% strengthening in relevant exchange rate on:				
Income statement	**25**	13	**23**	17
Equity	**25**	13	**23**	17
Effect of an 5% weakening in relevant exchange rate on:				
Income statement	**(28)**	(14)	**(26)**	(18)
Equity	**(28)**	(14)	**(26)**	(18)

27.4 Interest rate sensitivity

Following the repayment of the Group's debt facilities at the time of the initial public offering in June 2011, the Group's exposure to interest rates is minimal.

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

The aggregate amount of the Group's cash deposits on fixed interest terms as at 31 December 2011 was £2.7 million (2010: £nil). The weighted average fixed interest rate on the cash balances during the year was 1.21% (2010: nil) and the weighted average period for which the rate is fixed is 40 days (2010: nil). The aggregate amount of cash deposits on variable interest terms held with clearing bankers as at 31 December 2011 was £3.3 million (2010: £7.1 million).

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

	2011 £'000	2010 £'000
Effect of an 5% strengthening in relevant exchange rate on:		
Income statement	**32**	10
Equity	**32**	10
Effect of an 5% weakening in relevant exchange rate on:		
Income statement	**(20)**	(5)
Equity	**(20)**	(5)

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 policy throughout the year has been to place surplus funds on short-term treasury deposit or interest bearing reserve accounts based on its cash flow forecasting. The Group manages its liquidity needs by carefully monitoring forecast cash inflows and outflows due in day-to-day business. Net cash requirements are compared to balances in order to determine headroom or any shortfalls. This analysis shows if available cash is expected to be sufficient and the need for securing finance from its shareholder base.

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 2011				
Trade and other payables	**4,482**	**–**	**160**	**–**
Loans and borrowings	**–**	**–**	**–**	**–**
As at 31 December 2010				
Trade and other payables	3,071	–	–	–
Loans and borrowings	2,213	209	1,397	–

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 consist of cash and cash equivalents of the Company, as disclosed in the consolidated statement of financial position.

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. During 2011, the Group issued 6,446,208 Ordinary shares raising £5,238,000 in cash (before expenses) to provide funds for the growth and development of the Group and repaid or converted all debt instruments.

The Group is not subject to externally imposed capital requirements. The capital structure is continually monitored by the Group.

27 Financial risk management continued

27.8 Summary of financial assets and liabilities by category

The carrying amounts presented in the Consolidated Statement of Financial Position relate to the following categories of financial assets and liabilities:

	2011 £'000	2010 £'000
Loans and receivables		
Trade and other receivables	**9,143**	5,962
Cash and cash equivalents	**6,034**	7,130
Total loan and receivables	**15,177**	13,092
Financial liabilities at amortised cost		
Current liabilities		
Loans and borrowings	**–**	(2,372)
Trade and other payables	**(4,482)**	(3,071)
	(4,482)	(5,443)
Non-current liabilities		
Loans and borrowings	**–**	(1,246)
Other liabilities	**(160)**	–
Total non-current liabilities	**–**	(1,386)
Total liabilities	**(4,642)**	(9,732)

Independent auditors' 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 2011 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 auditors' 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 auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at ww.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 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Ubisense Group plc for the year ended 31 December 2011.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
19 March 2012

Company balance sheet

At 31 December 2011

	Notes	2011 £'000	2010 £'000
Fixed assets			
Investments in subsidiaries	3	**16,003**	13,763
Current assets			
Debtors	4	**8,067**	4,822
Cash at bank and in hand		**2**	–
		8,069	4,822
Creditors – amounts falling due within one year	5, 7	**(400)**	(1,974)
Net current assets		**7,669**	2,848
Total assets less current liabilities		**23,672**	16,611
Creditors – amounts falling due after more than one year	6, 7	**(160)**	(754)
Net assets		**23,512**	15,857
Capital and reserves			
Called-up share capital	8	**433**	304
Share premium account	9	**22,031**	14,550
Equity component of loans	9	**–**	457
Share-based payment reserve	9	**591**	546
Profit and loss reserve	9	**457**	–
Equity shareholders' funds	10	**23,512**	15,857

The notes on pages 54 to 56 are an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 19 March 2012 and signed on its behalf by:

Richard Green
Chief Executive Officer

Gordon Campbell
Chief Financial Officer

The Company's registered number is 05589712

Notes to the Company financial statements

For the year ended 31 December 2011

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 subsidiary. 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.

Compound instruments

The Company applied the requirements of FRS 25 “Financial Instruments – Presentation” to account for the convertible and bank loans. The bank loan was repaid and the convertible loans were either converted or repaid prior the initial public offering on 22 June 2011. These loans were regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component was estimated using the prevailing market interest rate for a similar debt instrument without a conversion feature. The difference between the loan balance and the fair value assigned to the liability component, representing the embedded equity element (option to convert the liability into equity of the Group, or warrants over shares in the Company), was accounted for as an equity instrument.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar debt instrument to the liability component. The difference between this amount and the interest paid is added to the carrying amount of the loan.

On conversion of debt to equity the carrying value of the debt instrument is transferred to equity and no gain or loss arises on conversion.

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 Profit 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 profit for the financial year ended 31 December 2011 of nil (2010: nil).

The Company does not have any employees (2010: 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 2011	13,763
Additions	2,216
Capital contribution relating to share-based payments	24
At 31 December 2011	**16,003**

Additions

The additions in the year relate to:

- subscription for ordinary shares in a new subsidiary, Ubisense SAS, for total consideration of £13,000;
- the acquisition of Integrated Mapping Solutions, Inc. for total consideration of £393,000; and
- the acquisition of Realworld OO Systems Limited for total consideration of £1,810,000.

Further details of the acquisitions are given in note 26 of the consolidated financial statements.

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.

Subsidiary undertakings

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

4 Debtors

	2011 £'000	2010 £'000
Amounts owed by subsidiary undertakings	**8,067**	4,822

5 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Convertible loan	**–**	1,974
Other liabilities – contingent consideration	**400**	–
	400	1,974

6 Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Convertible loan	**–**	754
Other liabilities – contingent consideration	**160**	–
	160	754

Notes to the Company financial statements continued

For the year ended 31 December 2011

7 Maturity of financial liabilities

	2011 £'000	2010 £'000
In one year or less		
Convertible loan	**–**	1,974
Other liabilities – contingent consideration	**400**	–
	400	1,974
Within one to two years		
Convertible loan	**–**	754
Other liabilities – contingent consideration	**160**	–
	160	754
	560	2,728

Convertible loan

£2,364 of the convertible loan was repaid in year with the remainder converted into ordinary shares.

Contingent consideration

The contingent consideration relates to the acquisition of Realworld OO Systems Limited in the year which is further described in note 26 in the consolidated financial statements.

8 Share capital

	2011 Number	2010 Number	2011 £'000	2010 £'000
Allotted, called up and fully paid				
Ordinary shares of £0.02 each	**21,657,698**	15,211,490	**433**	304

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

9 Reserves

	Share premium £'000	Equity component of convertible loans £'000	Share-based payment reserve £'000	Profit and loss reserve £'000
Balance at 1 January 2011	14,550	457	546	–
Profit for the year	–	–	–	–
Reserve credit for equity-settled share-based payment	–	–	45	–
Equity component of loans converted	–	(457)	–	457
Premium on new share capital	7,968	–	–	–
Share issue costs	(487)	–	–	–
Change in year	7,481	(457)	45	457
Balance at 31 December 2011	**22,031**	**–**	**591**	**457**

10 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Profit/(loss) for the year	**–**	–
Reserve credit for equity-settled share-based payment	**45**	18
Issue of new share capital	**129**	69
Premium on new share capital	**7,968**	4,973
Share issue costs	**(487)**	(196)
Premium on new share capital	**–**	–
Net change in shareholders' funds	**7,655**	10,993
Shareholders' funds at 1 January	**15,857**	4,864
Shareholders' funds at 31 December	**23,512**	15,857

Ubisense Group plc

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

Notice is hereby given that the annual general meeting ("Meeting") of Ubisense Group plc (the "Company") is to be held at the offices of FTI Consulting, Holborn gate, 26 Southampton Buildings, London WC2A 1PB on 26 April 2012 at 09.30 am.

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

Ordinary business

Report and accounts

1. THAT the Company's annual accounts for the financial year ended 31 December 2011, together with the directors' report and auditor's report on those accounts, be received and adopted.

Re-election of directors

2. To re-elect Richard Green, who retires by rotation and offers himself for re-appointment by general meeting, as a director of the Company.

3. To re-elect Peter Harverson, who retires by rotation and offers himself for re-appointment by general meeting, as a director of the Company.

Re-appointment of auditors

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

Special business

Issue of Ordinary Shares

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

   a. up to an aggregate nominal value of £145,000 (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 £65,000 in connection with options granted in accordance with the Company's articles of association,

   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.

Notice of annual general meeting continued

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

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

   b. the allotment of equity securities in connection with options granted in accordance with the Company's articles of association up to an aggregate nominal value of £65,000;

   c. the allotment of equity securities (otherwise than pursuant to sub-paragraphs (a) and (b) above) up to a maximum aggregate nominal value of £65,000 (being the nominal value of approximately 15 percent. 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
90 St. Andrew's Road
Chesterton
Cambridge
CB4 1DL

2 April 2012

Notes to the notice of annual general meeting

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at:
   - at the time which is 48 hours prior to the Meeting; or,
   - if this Meeting is adjourned, at the time which is 48 hours prior to the adjourned meeting,

   shall be entitled to attend and vote at the Meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.
4. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. Failure to specify the number of shares to which each proxy appointment relates or specifying more shares than the number of shares held by you at the time set out in note 1 above will result in the proxy appointments being invalid.
6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxies using hard copy form

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

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

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

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

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

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

Appointment of proxies through CREST

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

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

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

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

Appointment of proxy by joint members

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

Notes to the notice of annual general meeting continued

Changing proxy instructions

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

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

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

Termination of proxy appointments

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

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

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

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

Corporate representatives

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

Issued shares and total voting rights

13. As at 5.00 p.m. on date before the date of this notice, the Company's issued share capital comprised 21,684,461 ordinary shares of £0.02 each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00 p.m. on the date before the date of this notice is 21,684,461.

Nominated persons

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

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

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

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

Communication

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

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

    You may not use any electronic address provided either:

    - in this notice of annual general meeting; or
    - any related documents (including the proxy form),

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

Advisers

Ubisense Group plc
St. Andrew's House
St. Andrew's Road
Chesterton
Cambridge CB4 1DL

Tel: +44 (0)1223 535 170
Fax: +44 (0)1223 535 167

Website: www.ubisense.net

Public Relations Advisors
FTI Consulting
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Lawyers to the Company
Mills & Reeve LLP
Cambridge Office:
Francis House
112 Hills Road
Cambridge CB2 1PH

Nominated Advisors and Brokers
Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR

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

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Ubisense

St. Andrew's House
St. Andrew's Road
Chesterton
Cambridge CB4 1DL

Tel: +44 (0)1223 535 170
Fax: +44 (0)1223 535 167

www.ubisense.net