



smart metering
systems plc

Smart Metering Systems plc

Placing and Admission to AIM

Nominated Adviser and Broker:
Cenkos Securities plc

www.sms-plc.com

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you are recommended immediately to seek your own financial advice from your stockbroker, bank manager, solicitor or other independent adviser who specialises in advising on the acquisition of shares and other securities and is authorised under the Financial Services and Markets Act 2000 (as amended) ("FSMA") if you are resident in the UK, or, if you are not resident in the UK, from another authorised independent adviser. The whole of this document should be read. Your attention is drawn in particular to the section entitled "Risk Factors" in Part II of this document that describes certain risks associated with an investment in the Company.

The Directors of Smart Metering Systems plc (the "**Company**"), whose names, business addresses and functions appear on page 10 of this document, and the Company accept responsibility, individually and collectively, in accordance with the AIM Rules for Companies ("**AIM Rules**"), for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document, which comprises an admission document drawn up in accordance with the AIM Rules, has been issued in connection with the proposed admission of the issued and to be issued Ordinary Shares to trading on AIM, a market operated by the London Stock Exchange plc ("**AIM**"). This document does not contain an offer or constitute any part of an offer to the public within the meaning of sections 85 and 102B of FSMA or otherwise. This document is not an approved prospectus for the purposes of section 85 of FSMA and a copy of it has not been, and will not be, delivered to the Financial Services Authority (the "**FSA**") in accordance with the Prospectus Rules or delivered to or approved by any other authority which could be a competent authority for the purposes of the Prospectus Directive.

A copy of this document will be available, free of charge, during normal business hours on any weekday (except Saturdays, Sundays and public holidays), at the offices of Dundas & Wilson CS LLP, for a period of one month from the date of Admission.

Application will be made for the issued and to be issued Ordinary Shares to be admitted to trading on AIM ("**Admission**"). It is expected that Admission will take place and that dealings in the issued and to be issued Ordinary Shares will commence on 8 July 2011. **AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority (the "Official List"). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.** In particular, it should be remembered that the price of securities and the income from them can go down as well as up. The AIM Rules are less demanding than those of the Official List. **Each AIM company is required pursuant to the AIM Rules to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. It is emphasised that no application is being made for the Ordinary Shares to be admitted to the Official List or to any other recognised investment exchange. Further, neither the London Stock Exchange nor the FSA has examined or approved the contents of this document.**

SMART METERING SYSTEMS PLC

(Incorporated and registered in Scotland with registered number SC367563)

**Placing of 16,666,667 New Ordinary Shares and 28,333,333 Sale Shares of 1p each
at 60p per Ordinary Share
Admission to trading on AIM**

Nominated Adviser and Broker



The Placing is conditional, *inter alia*, on Admission taking place on or before 8 July 2011 (or such later date as the Company and Cenkos Securities plc may agree). The Placing Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends or other distributions declared, paid or made after Admission.

Cenkos Securities plc is authorised and regulated in the United Kingdom by the FSA and is advising the Company and no one else in connection with the Placing and Admission (whether or not a recipient of this document), and is acting exclusively for the Company as nominated adviser and broker for the purpose of the AIM Rules. Cenkos Securities plc will not be responsible to any person other than the Company for providing the protections afforded to its customers, nor for providing advice in relation to the Placing and Admission or the contents of this document. In particular, the information contained in this document has been prepared solely for the purposes of the Placing and Admission and is not intended to inform or be relied upon by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and accordingly no duty of care is accepted in relation to them. Without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by Cenkos Securities plc as to the contents of this document. No liability whatsoever is accepted by Cenkos Securities plc for the accuracy of any information or opinions contained in this document, for which the Directors are solely responsible, or for the omission of any information from this document for which it is not responsible.

This document does not constitute an offer to sell, or a solicitation of an offer to buy Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States, Canada, the Republic of South Africa, Australia, the Republic of Ireland or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933, as amended, any state securities laws in the United States or any securities laws of Canada, the Republic of South Africa or Japan or in any country, territory or possession where to offer them without doing so may contravene local securities laws or regulations. Accordingly, the Ordinary Shares may not, subject to certain limited exceptions, be offered or sold, directly or indirectly, in the United States, Canada, the Republic of South Africa, Australia, the Republic of Ireland or Japan or to, or for the account limited or benefit of, any person in, or any national, citizen or resident of the United States, Canada, the Republic of South Africa, Australia, the Republic of Ireland or Japan. The distribution of this document outside the United Kingdom may be restricted by law and therefore persons outside the United Kingdom into whose possession this document comes should inform themselves about and observe any restrictions as to the Placing, the Ordinary Shares or the distribution of this document.

No broker, dealer or other person has been authorised by the Company, the Directors or Cenkos Securities plc to issue any advertisement or to give any information or make any representation in connection with the offering or sale of the Placing Shares other than those contained in this document and if issued, given or made, that advertisement, information or representation must not be relied upon as having been authorised by the Company, the Directors or Cenkos Securities plc.

Prospective investors should not assume that the information in this document is accurate as of any other date than the date of its publication (the "**Publication Date**") as set out on page 3. The delivery of this document at any time after the Publication Date will not, under any circumstances, create any implication that there has been no change in the Company's affairs since the Publication Date or that the information set forth in this document is correct as of any time since the Publication Date.

The Company is not providing prospective investors with any legal, financial, business, tax or other advice. Prospective investors should consult with their own advisers as needed to assist them in making their investment decision and to advise them whether they are legally permitted to purchase the Ordinary Shares.

The contents of the Company's website, including any websites accessible from hyperlinks on the Company's website, do not form part of this document.

Forward-looking statements

This document contains forward looking statements relating to the Company's future prospects, developments and strategies, which have been made after due and careful enquiry and are based on the Directors' current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Forward-looking statements are identified by their use of terms and phrases such as "believe", "could", "envisage", "estimate", "intend", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These forward-looking statements are subject to, *inter alia*, the risk factors described in Part II of this document. The Directors believe that the expectations reflected in these statements are reasonable, but may be affected by a number of variables which could cause actual results or trends to differ materially. Each forward-looking statement speaks only as of the date of the particular statement.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	24 June 2011
Admission and dealings in the Ordinary Shares to commence on AIM	8 July 2011
CREST accounts credited for Placing Shares in uncertificated form	8 July 2011
Despatch of definitive share certificates, where applicable	15 July 2011

Each of the dates in the above timetable is subject to change without further notice.

PLACING STATISTICS

Placing Price	60 pence
Number of Existing Ordinary Shares in issue prior to the Placing	66,673,080
Number of New Ordinary Shares being issued pursuant to the Placing	16,666,667
Number of Existing Ordinary Shares being sold pursuant to the Placing	28,333,333
Number of Ordinary Shares in issue on Admission	83,339,747
Percentage of the Enlarged Issued Share Capital being placed (including the Sale Shares)	54 per cent.
Estimated gross proceeds of the Placing receivable by the Company (<i>approximately</i>)	£10 million
Estimated net proceeds of the Placing receivable by the Company (<i>approximately</i>)	£8.65 million
Market capitalisation immediately following completion of the Placing at the Placing Price (<i>approximately</i>)	£50 million
AIM 'ticker'	SMS
SEDOL	B4X1RC8
ISIN number	GB00B4X1RC86

DEFINITIONS

In this document, where the context permits, the expressions set out below shall bear the following meaning:

“ADM Device” or “ADM”	an electronic device which when attached to a gas meter and used in conjunction with the Group’s web interface forms the Group’s smart metering solution
“Admission”	the admission of the Ordinary Shares issued, and to be issued pursuant to the Placing, to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“Admission Document”	this document
“AIM”	the market of that name operated by London Stock Exchange
“AIM Rules”	the AIM Rules for Companies setting out the rules and responsibilities in relation to AIM companies published by the London Stock Exchange as amended from time to time
“AIM Rules for Nominated Advisers”	the AIM Rules for Nominated Advisers setting out the eligibility, ongoing obligations and certain disciplinary matters in relation to Nominated Advisers published by the London Stock Exchange as amended from time to time
“Articles”	the articles of association of the Company adopted on 17 June 2011
“Audit Committee”	the audit committee of the Board
“BP Energy”	BP Gas Marketing Limited (registered number 00908982) and having its registered office at Chertsey Road, Sunbury on Thames, Middlesex TW16 7BP
“British Gas”	British Gas Trading Limited (trading as British Gas Business) (registered number 03078711) and having its registered office at Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD
“Business Day”	a day other than a Saturday or Sunday on which banks are open for commercial business in the City of London
“Capital Meters”	Capital Meters Limited (registered number 04800317) having its registered office at Ropemaker Place, 28 Ropemaker Street, London EC2Y 9HD
“Centrica”	Centrica plc (registered number 3033654) and having its registered office at Millstream, Maidenhead Road, Berkshire, SL4 5GD
“certificated” or “certificated form”	in the description of a share or other security which is not in uncertificated form (that is not in CREST)
“City Code”	the City Code on Takeovers and Mergers
“CMR”	CMR Consulting Limited (registered number 0490235) having its registered office at Wayside, Seaside Lane, Easington, Peterlee SR8 3TW
“Connected Persons”	any person who is ‘connected’ with either Stephen Timoney or Alan Foy (within the meaning of sections 252 and 253 of the Act) and substituting references in sections 252 and 253 to a ‘director’ with each of Stephen Timoney and Alan Foy

“consumer”	the end gas customer (either I&C or domestic), ultimately responsible for choosing their gas supplier. Consumers can change supplier but the underlying infrastructure and ownership of meter assets does not change
“Corporate Governance Code”	the UK Corporate Governance Code issued by the Financial Reporting Council
“credit meters”	meters from which information on energy usage is read periodically and passed to the gas supplier by either a meter reader physically visiting the property or by a consumer who submits the reading themselves
“CREST”	the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by Euroclear UK & Ireland Limited
“CREST Manual”	the compendium of documents entitled CREST Manual issued by CRESTCo from time to time and comprising the CREST Reference Manual, the CREST Central Counterparty Service Manual, the CREST International Manual, the CREST Rules, CCSS Operations Manual and the CREST Glossary of Terms
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended
“CREST Rules”	the rules from time to time issued by CRESTCo governing the admission of securities to and the operation of the CREST UK System
“CREST UK System”	the facilities and procedures of the relevant systems of which CRESTCo is the Approved Operator pursuant to the CREST Regulations
“CRESTCo”	Euroclear UK and Ireland Limited, the operator of the CREST UK System or such other person as may for the time being be approved by HM Treasury as operator under the CREST Regulations
“Directors” or “Board”	the directors of the Company whose names appear on page 10 of this document
“Disclosure Rules”	the Disclosure and Transparency Rules made by the UKLA in accordance with section 73(A)(3) of FSMA relating to the disclosure of information in respect of financial instruments which have been admitted to trading on a regulated market
“DTN”	a gateway to manage communications with suppliers, favoured by the electricity industry but also used by some gas suppliers
“ENI”	ENI UK Limited (registered number 0862823) and having its registered office at ENI House, 10 Ebury Bridge Road SW1W 8PZ
“Enlarged Issued Share Capital”	the entire issued Ordinary Share capital of the Company immediately following Admission, comprising the Existing Ordinary Shares and the New Ordinary Shares
“Existing Ordinary Shares”	the 66,673,080 Ordinary Shares in issue immediately prior to the Placing

“Financial Services and Markets Act” or “FSMA”	the Financial Services and Markets Act 2000 (as amended)
“FM Assets” or “ECO European”	FM Assets Limited (formerly ECO European Limited) (registered number SC158697)
“FSA”	the UK Financial Services Authority
“Gazprom”	Gazprom Marketing & Trading Limited (registered number 03768267) and having its registered office at 20 Triton Street, London NQ1 3BF
“GDF”	GDF Suez
“GDF Suez”	GDF Suez Sales Limited and GDF Suez Sales Solutions Limited (registered numbers 3814495 and 3814488) and having their registered offices at 1 City Walk, Leeds, West Yorkshire LS11 9DX
“Globrin”	Global Technologies International Limited (registered number SC193014), trading as ‘Globrin’, having its registered office at 11 Beech Avenue, Newton Mearns, Glasgow G77 5PP
“I&C”	industrial and commercial
“IFRS”	International Financial Reporting Standards, as adopted for use in the European Union
“iGT”	Independent Gas Transporter
“infrastructure facilitator”	facilitates installation of gas connections, including supply pipes and meters, and generates revenue through managing individual projects for suppliers
“IX”	a gateway to manage communications with suppliers, favoured by the gas industry
“kWh”	kilowatt hour
“Lock-in Agreements”	the agreements by which each of Steve Timoney and Alan Foy has agreed, with Cenkos and the Company, certain undertakings with respect to their holdings of Existing Ordinary Shares (other than the Sale Shares) on Admission, as more particularly described in paragraph 13 of Part VII of this document
“London Stock Exchange”	London Stock Exchange plc
“LPG”	liquefied petroleum gas
“MAM” or “Meter Asset Manager”	an entity having a contractual obligation to a gas supplier to perform all essential services around the meter, including replacement and maintenance, and receives a corresponding rental payment from the supplier for use of the meter
“MAM Services”	the provision of services by the MAM related to the management of metering equipment, including receiving and sending data to and from the customer under the relevant MAM agreement, scheduling and programming of MAP Services, invoice generation, and rental of metering equipment to the supplier
“MAMCoP”	Meter Asset Manager Code of Practice
“MAP”	Meter Asset Provider

“MAP Services”	the provision of design, installation, commissioning, inspection, exchange, repair, alteration, repositioning, removal and renewal of metering equipment services by the MAP
“Memorandum”	the memorandum of association of the Company
“Meter Fit”	the Meter Fit group of companies, including Meter Fit (North East) Limited (registered number 04345746) and Meter Fit (North West) Limited (registered number 04410548) having their registered offices at 4th Floor, 19 Spring Gardens, Manchester M2 1FB
“Murgitroyd”	Murgitroyd and Company Limited
“New Ordinary Shares”	the 16,666,667 new Ordinary Shares to be issued by the Company and placed with Placees pursuant to the Placing
“NGT”	National Grid plc (registered number 4031152) and having its registered office at 1-3 Strand, London WC2N 5EH
“NGM”	National Grid Metering Limited (registered number 03705942) having its registered office at 1-3 Strand, London WC2N 5EH
“Nominated Adviser”, “Nomad” or “Cenkos”	Cenkos Securities plc, a company incorporated in England and Wales (registered number 05210733) and having its registered office at 6.7.8 Tokenhouse Yard, London EC2R 7AS
“Official List”	the official list of the UK Listing Authority
“OFGEM”	Office of Gas and Electricity Markets
“Ordinary Shares” or “Shares”	ordinary shares of 1 pence each in the capital of the Company
“Placees”	subscribers for the New Ordinary Shares or purchasers of the Sale Shares, as procured by Cenkos on behalf of the Company pursuant to the Placing Agreement
“Placing”	the conditional placing by Cenkos of (i) the New Ordinary Shares on behalf of the Company; and (ii) the Sale Shares on behalf of the Selling Shareholders, all at the Placing Price pursuant to, and on the terms of, the Placing Agreement
“Placing Agreement”	the conditional agreement dated 23 June 2011 between (i) Cenkos; (ii) the Company; (iii) the Directors; and (iv) the Selling Shareholders relating to the Placing, further details of which are set out in paragraph 13.2 of Part VII of this document
“Placing Price”	60 pence per Placing Share
“Placing Shares”	together, the New Ordinary Shares and the Sale Shares to be placed pursuant to the Placing
“pre-payment meters”	meters which are essentially the same as credit meters but with a mechanism that requires consumers to pay in advance for their gas consumption by purchasing credits at a retail outlet which are then loaded in to the meter by way of a prepayment card
“Prospectus Directive”	the Prospectus Directive (2003/71/EC)
“Prospectus Rules”	the prospectus rules of the UK Listing Authority made in accordance with Section 73A of FSMA as amended from time to time brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004 and the Prospectus Regulations 2005 (SI 2005/1433)

“QCA Guidelines”	the Corporate Governance Guidelines for AIM Companies published by the Quoted Companies Alliance (as amended from time to time)
“Registrar”	Computershare Investor Services PLC, a company incorporated in England and Wales (registered number 03498808) whose registered office is at The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
“Relationship Agreements”	the relationship agreements dated 21 June 2011 between (i) Stephen Timoney and the Company and (ii) Alan Foy and the Company described in paragraph 13.4 of Part VII of this document
“Remuneration Committee”	the remuneration committee of the Board
“RGMA”	Review of Gas Metering Arrangements
“RPI”	Retail Prices Index
“Sale Shares”	the 28,333,333 Existing Ordinary Shares to be sold to Placees by the Selling Shareholders pursuant to the Placing
“Selling Shareholders”	Stephen Timoney and Alan Foy, both of whom are Directors of the Company
“Shareholders”	holders of Ordinary Shares
“Share Options”	rights to subscribe for Ordinary Shares
“Share Schemes”	the existing share incentive schemes and agreements of the Company, details of which are set out at paragraph 15 of Part VII of this document
“Shell Gas Direct”	Shell Gas Direct Limited (registered number 02405635) and having its registered office at Shell Centre, London SE1 7NA
“shipper”	wholesaler of gas supply i.e. purchasing the gas and arranging for the transportation of the gas to the consumer. The shipper balances the volume of gas purchased with the volume of gas consumed. In practice, the shipper is also usually the supplier
“smart meter data collector”	generates revenue from contracts to provide meter reading data and consumption trends
“smart meter provider”	provides, operates and manages smart meter equipment and devices. A commercial service provider to consumers and gas, LPG, water and electricity suppliers
“smart meters”	produce an electronic output that provides data on energy usage that can be collected and analysed remotely
“SMS”, “Company” or “Smart Metering Systems”	Smart Metering Systems plc, a company incorporated in Scotland (registered number SC367563) and having its registered office at Level 6, 142 St Vincent Street, Glasgow G2 5LA
“SMS Group”, “Group” or “Smart Metering Group”	the Company and its subsidiaries from time to time
“SMS (IP)”	SMS IP Limited (registered number SC370858), a subsidiary of the Company

“SPERL”	Scottish Power Energy Retail Limited (registered number SC190287) and having its registered office at 1 Atlantic Quay, Robertson Street, Glasgow G2 8SP
“SSE” or “Scottish & Southern Energy”	Scottish & Southern Energy plc (registered number 117119) and having its registered office at Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ
“subsidiaries”	any subsidiary as defined in the 2006 Act
“supplier”	the gas supplier which is the ‘ <i>hub</i> ’ of the market, responsible for organising services and contracting with the consumer. The supplier is responsible for ensuring adequate metering arrangements at every consumer’s premises and can request NGT to supply service and meters as ‘ <i>supplier of last resort</i> ’
“supplier of last resort”	in the absence of any other supplier being chosen by the consumer, certain specified suppliers are suppliers of last resort. They must provide meter maintenance and installation services
“Takeover Panel”	the Panel on Takeovers and Mergers
“title holder”	actual owner of the gas meter
“Total”	Total Gas & Power Limited (registered number 02172239) and having its registered office at 10 Upper Bank Street, Canary Wharf, London E14 5BF
“transporter”	responsible for gas infrastructure and transportation of gas from entry terminal to the consumer, on behalf of the shipper.
“UKDM”	UK Data Management Limited (registered number SC367412), a subsidiary of the Company
“UKGC”	UK Gas Connection Limited (formerly named ECO Project Management Limited) (registered number SC247671), a subsidiary of the Company
“UKMA”	UK Meter Assets Limited (formerly named UK Meter Exchange Limited) (registered number SC320750), a subsidiary of the Company
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“uncertificated” or “in uncertificated form”	securities recorded on a register of securities maintained by Euroclear UK & Ireland Limited in accordance with the CREST Regulations as being in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“2006 Act” or “the Act”	the Companies Act 2006
“£”, “Sterling” or “Pounds”	pounds sterling, the legal currency of the United Kingdom

DIRECTORS, SECRETARY AND ADVISERS

Directors

Kevin John Lyon (*Non-Executive Chairman*)
Stephen Paul Timoney (*Deputy Chairman*)
Alan Henry Foy (*Chief Executive Officer*)
Glen Murray (*Finance Director*)
Nigel Bryan Christie (*Non-Executive Director*)

all of

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The Exchange Building
142 St Vincent Street
Glasgow G2 5LA

Registered Office of the Company

Level 6
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142 St Vincent Street
Glasgow G2 5LA

Company Secretary

Glen Murray

Nominated Adviser and Broker

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and

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London EC2R 7AS

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Reporting Accountants to the Company

Baker Tilly Corporate Finance LLP
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Solicitors to the Company

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191 West George Street
Glasgow G2 2LD

Solicitors to the Company as to the Share Schemes

Wright Johnston & Mackenzie LLP
302 St Vincent Street
Glasgow G2 5RZ

Patent and Trade Mark Attorney to the Company

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Registrars

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Company's web site

www.sms-plc.com

PART I

INFORMATION ON THE GROUP

Smart Metering Systems

Established in 1995, the Smart Metering Group's business is focused on the provision of gas infrastructure connection services, gas meter asset management services, and the development of advanced smart metering technology solutions.

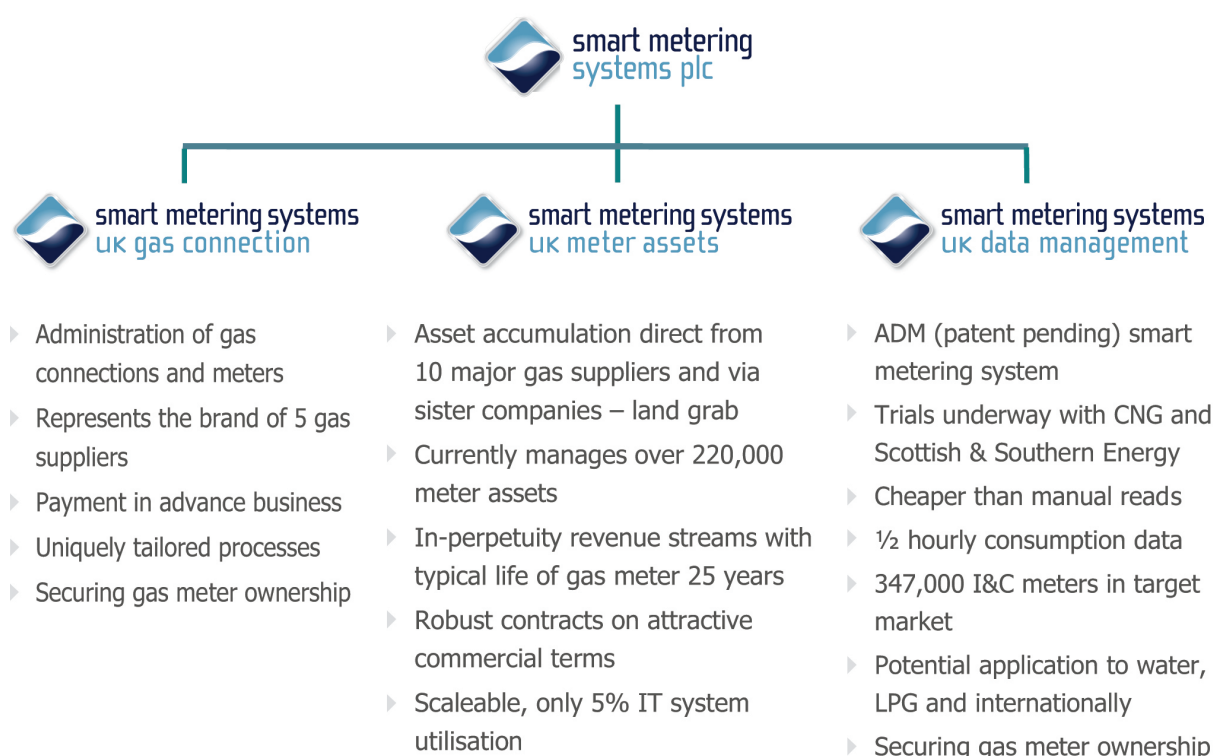
The Group has three trading subsidiaries which deliver an integrated range of services and is the only independent provider of the complete package of services to the UK's key gas suppliers.

The Group has invested heavily to establish a solid foundation to support increasing demand for its services and the growth opportunities driven by:

- very attractive smart metering commercial terms;
- government initiatives around smart metering; and
- government initiatives around cutting carbon emissions.

The SMS Group's business is highly scalable without further investment in infrastructure. The Group trading structure is illustrated below with the key features of each of the trading subsidiaries:

Group Trading Structure



SMS clients

SMS has an impressive supplier client list with which it has long standing multi-level relationships including Scottish & Southern Energy, Scottish Power, Centrica, Total, Shell, GDF Suez, CNG, Gazprom, ENI, First Utility, Ovo, Utilita, and BP. All of these companies are expected to be responsible for the roll out of Smart Metering and they provide potential access to a large percentage of the UK domestic and I&C gas meters market. The SMS Group's business processes and output for its IT systems are tailored to each individual gas supplier's requirements.

Industry background

The Group was established to take advantage of the opening up of competition in the gas market. The first area to open up to competition was gas connections work (UKGC), followed by meter asset management (UKMA). The most recent change in the market has been the introduction of smart metering (UKDM).

Until deregulation of the UK gas market began in 1989, all gas meters were owned by British Gas. With the advent of competition in the gas supply and transportation sectors, British Gas was split into two companies, Centrica, which retained the retail supply and the British Gas brand, and NGT which retained the transportation and infrastructure assets. The services provided by NGT included:

- the design, management, installation and adoption (taking ownership of) and subsequent operation of new gas pipes and meters;
- the exchange of meters as part of a meter replacement policy;
- the functional exchange of meters from a credit to a prepayment meter where requested by gas suppliers; and
- the exchange of meters to facilitate smart metering.

In 2000, the concept of competition in gas metering progressed further and the Review of Gas Metering Arrangements (“RGMA”) commenced.

In 2001 OFGEM published its metering strategy providing the framework for entry of competitors into the gas metering market. OFGEM is the Office of the Gas and Electricity Markets. Protecting consumers is its first priority – it does this by promoting competition, wherever appropriate, and regulating the companies which run the gas and electricity networks. The interests of gas and electricity consumers are taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.

Following publication of this strategy, in 2002 NGT separated its metering business from its transportation business, setting up a new subsidiary, NGM, to provide metering services. OFGEM sets an overall revenue limit for NGM’s meter rental income of a maximum annual increase in line with inflation which is translated into individual prices for each type of meter.

In July 2004, following RGMA, OFGEM launched a new gas industry framework allowing direct competition for metering services. This competition framework set out the minimum requirements for the IT systems necessary to ensure adequate management of meter assets and helped facilitate competitive choice for suppliers. On 12 July 2004, the Group received accreditation from OFGEM under the Meter Asset Management Code of Practice. As part of this accreditation process, the Group is subject to audit inspections by OFGEM. The last such audit inspection took place on 6 May 2011 and no material issues were raised. Whilst the Group will continue to require OFGEM accreditation, meter asset management itself is not a regulated or price controlled business.

Following RGMA, there was a major shift in the way the gas metering market operated with the obligation to make metering arrangements moving from the gas shipper to the gas supplier, which has the direct relationship with the gas consumer. The gas supplier was now the “hub” of the market. The most complex part of RGMA was agreeing and implementing the IT systems and data flows necessary to manage meter assets effectively. These are known as the ‘RGMA baseline’ and at the most basic level determine the flow of data between the supplier and MAM to:

- appoint and de-appoint a MAM to a meter;
- request metering works; and
- request exchange and removal of meters.

NGM incorporated the RGMA requirements into its own system called *Rainbow*, which forms the core of the supplier’s relationship with NGM. Rainbow goes beyond the basic RGMA data flows to facilitate other information exchanges, the most important of which is invoicing. In order to effectively manage

meter asset data and billing on a large scale, a MAM must have a robust IT system that complies with the RGMA baseline but ideally, also with the Rainbow specification, allowing all gas suppliers to interface with the MAM without the requirement for any system modifications.

In 2005, following complaints from a number of market participants, OFGEM launched an investigation into National Grid's metering contracts. That investigation concluded in 2010 when the Supreme Court refused NGT's appeal and a fine of £15m was imposed. The effect of the NGT contracts under investigation was to severely restrict the ability of market participants, including UKMA, to gain market share in meter ownership.

UKMA reacted to this by developing a number of niche metering services directly to gas suppliers which allowed ownership of meter assets and development of supporting services since 2004. This allowed UKMA to build on the metering services infrastructure and reach a high level of preparedness should an increased level of demand occur following the conclusion of the OFGEM investigation.

In 2008, the Group began to invest in development of a proprietary smart metering device. OFGEM is currently focussed on requiring a smart meter to be installed in every home and business by 2019, and has delivered its first mandate by introducing a licence condition to gas suppliers requiring large I&C meters to be made smart by end 2014.

UKDM, the smart metering business of the Group was established in 2010 in preparation for participating in smart metering services utilising the Group's patent pending ADM smart metering solution. UKDM is presently concentrating on the I&C market place but remains fully aware of and ready to address any opportunities to deliver smart metering on a large scale into the domestic market as the government driven smart metering programme develops.

The creation of UKDM was a significant milestone for the Group as the business now has the potential to deliver a complete service for their gas supplier clients from the initial enquiry for a gas supply to the delivery of regular, accurate consumption and trend information.

A significant industry milestone for smart metering technology is achieving a cost benefit of automatic metering over monthly manual meter readings. Based on the Group's current trials, the ADM device is competitive when compared with the existing monthly meter read sites. The Directors believe that this is a compelling driver for smart metering using the ADM solution.

Gas Industry Deregulation

Key milestones

Set out below is a survey of the key milestones which have occurred in the gas industry since 1989 and how the Group has responded to them.

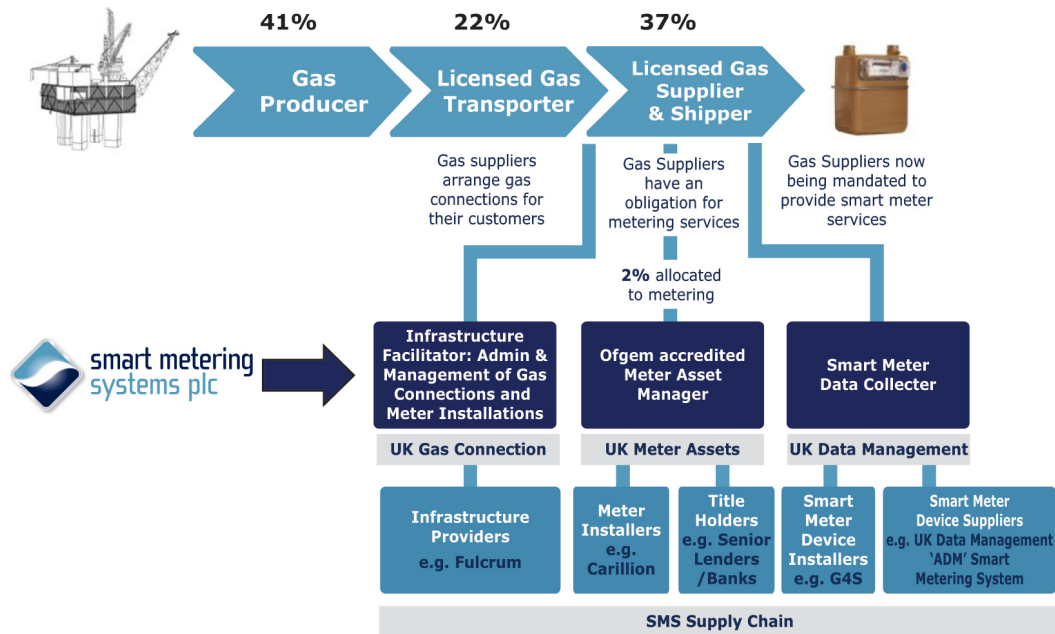
<i>Year</i>	<i>Gas Industry</i>	<i>Year</i>	<i>Key Milestones</i>
1989	Deregulation of I&C gas supply market begins.		
1995	Deregulation of gas connections and gas transportation.	1995	Steve Timoney established ECO European, to compete in the emerging gas connections market being introduced by OFGEM at the time.
			Amerada Hess (now part of E.On), becomes a client for administration and management of gas connections.
			Establishment of UKGC in gas connections market.
		1995 – 2001	Contracting base established in Scotland with expansion to the rest of the UK through the management of subcontracting works.

<i>Year</i>	<i>Gas Industry</i>	<i>Year</i>	<i>Key Milestones</i>
		2001 – 2004	SMS began a period of heavy investment in IT systems, processes and contracts in anticipation of the opening up of a competitive metering market. Group gained Total and Shell as UK-wide customers for the administration and management of gas connections.
2004	Deregulation of the gas metering market begins. OFGEM introduces competition in gas metering.	2004	Established the MAM business to capitalise on further growth opportunities resulting from deregulation of the UK gas market. Alan Foy joined the business, with responsibility for driving the introduction of the MAM offering. The business exited its construction activities but retained the key sub-contractor management skills. Establishment of UKMA into the gas metering market.
2004/5	OFGEM begin investigation to NGT's metering business.	2004 – 2007	Business gained SSE, ENI, BP and GDF as clients.
		2007 – 2009	Gazprom and Scottish Power contracted for the Group's services.
2009	First mandate for smart metering in I&C market.	2009 – 2010	by 2009, through gas supplier churn (described further below), the Group's gas meters have been established in premises supplied by a large number of other UK gas suppliers who continue to pay rent for these meters under "deemed contracts". Awarded tender with Centrica. Group structure put in place, pulling together all the Group services under one umbrella, positioned to demonstrate the full cycle service offering from initial contact with a client for a new gas connection through to delivery and analysis of energy usage through smart metering. Establishment of UKDM into the smart metering market. ADM patent filed.
2010	Supreme Court refuse NGT appeal and £15m fine imposed.	2010 – present	Trials of ADM device commenced with CNG and SSE.

UK Gas Supply Chain

Following deregulation of the gas metering market, one of the most important changes was the gas supplier becoming the “hub” of the market, responsible for making all metering arrangements.

The Group responded by focussing their range of services through the gas supplier as the hub with the intention of providing access to volume transactions. Set out below is a diagram showing the main stages of gas supply to the end consumer and how the Group interacts with the gas supplier.



The diagram above illustrates the gas supply chain from production of gas offshore to movement of gas through the gas network and the use of gas at the end consumer's meter, and the relative percentages of an end consumer's bill that is allocated to each part of the chain:

- The gas producer drills for gas and generally delivers it from the drilling site to the onshore terminal through a network of subsea pipelines deriving about 41 per cent. of the value of a consumer's bill.
- The gas transporter generally owns the onshore gas supply network and is contracted by the gas supplier to take gas from the producer's terminal and send it to the gas consumer's meter deriving about 22 per cent. of the value of a consumer's bill.
- The gas supplier purchases the gas from the producer, sells the gas to the end consumer and pays the transporter to move the gas deriving about 37 per cent. of the value of a consumer's bill.
- The gas supplier arranges metering to measure the gas used by the end consumer and pays the MAM around 2 per cent. of the value of a consumer's bill. This meter rental is not a commodity based rental (i.e. it does not vary with the volume of gas used by a consumer and has no exposure to commodity prices).
- The MAM is appointed by the gas supplier to manage its consumer's meters and has a contractual obligation towards the gas supplier to perform all of the essential services relating to the meter. The MAM's basic functions are to keep a database of all meters and associated data; replace meters when they reach the end of their useful life; receive requests for work to be performed; and co-ordinate the performance of work.
- While not necessarily a market participant, the title holder is the legal owner of the meter. The title holder need not necessarily be the MAM.

The diagram also illustrates the range of services that SMS delivers to the gas supplier from the provider of a gas connection, gas meter asset management services, to the provision of a comprehensive smart metering solution.

SMS manages a comprehensive supply chain to deliver installation of equipment by outsourcing physical installation works to contractors with national coverage.

The Directors believe that the main opportunity for growth for the Group is the replacement of NGT's meters with new, UKMA owned pulse enabled meters. NGT still has the obligation to provide gas meters under licence conditions as a '*supplier of last resort*'. This means that in the absence of any other service provider, NGT must provide the meters. As competition has developed, the installation of gas meters has moved away from NGT to a greater or lesser extent, with the degree of competition varying between market segments.

Smart metering

A smart meter is a meter that, either on its own or with an ancillary device attached, provides measured data of gas (or electricity) consumption for defined time periods and provides remote access to such data. Smart metering enables the supplier to obtain remote access to the data held by the meter which can be converted into useful information about the consumer's usage. There are generally two elements to a smart meter (which may be combined in one device or through a combination of two devices):

- the meter must have a 'pulsed output', which means that it produces an electronic pulse as gas is consumed, with the frequency of the pulse giving the rate at which gas is being consumed; and
- the smart device, which collects the pulse data and transmits it.

Smart metering generally requires a pulse enabled (or "smart-ready") meter. Some existing gas meters already have pulsed outputs and will simply require a smart device to be retro fitted, otherwise the meter will need to be replaced. The majority of SMS's installed meters have pulsed output.

The roll out of smart meters will provide a huge opportunity for SMS to gain market share in the ownership of meter assets by creating new revenue streams derived from the rental of SMS's proprietary smart metering device ADM (further details of which are set out below) and the associated information that is delivered via the website.

There is considerable drive from the government to introduce smart metering. OFGEM introduced a new licence condition for gas suppliers in April 2009, to ensure an acceptable deployment of smart meter technology. This condition applies to metering points at which the measured annual consumption of gas is more than 732,000 kWh. The licence condition will drive the uptake of smart metering in the I&C market. OFGEM is considering mandation of all meters in the I&C and domestic markets to be made 'smart' by the end of 2019.

SMS Group – UK Gas Connection

Background

Gas suppliers must supply gas to consumers through meters. Gas suppliers employ UKGC on a non exclusive basis to install meters and provide gas connections direct to their consumers.

UKGC is a transactional support services business which manages the administration of gas connections and meter installation for five major gas suppliers direct to their consumers, representing their brands (from initial contact to placing orders with an outsourced contractor, through to project conclusion). These long term, well established relationships continue to assist the Group to facilitate its expansion into other areas and disciplines and create significant barriers to entry.

UKGC is a contributor to the growth of the owned portfolio of meter assets under management. Independence from gas suppliers is key to consumers as it allows continuity of service through changes of supplier.

Service proposition

At an operational level, UKGC acts on behalf of the gas supplier or in the name of the gas supplier directly representing their brand. UKGC effectively sits as an administrative layer between the gas supplier and the subcontractors who actually carry out the work, managing a complex administration process starting from first contact with a consumer through coordination of around forty process steps with multiple third parties to the installation and commissioning of new gas infrastructure, including the metering equipment.

Given the high level of support required to manage these projects, UKGC is a people based business which recognises the importance of having a high quality workforce. Ongoing training is provided to all staff in all areas of the business with specific focus on developing exceptional customer experience skills.

One of UKGC's key advantages is that it is independent from the gas supplier. Typically if a consumer were to change supplier during a project, the supplier would cease to continue administering the project. The key benefit of UKGC's independence is that it can continue to work on the project, irrespective of changes in gas supplier.

Clients

UKGC has arrangements in place to deliver these services to BP Energy, Total, ENI, GDF Suez and Shell Gas Direct. In the last financial year, Total represented approximately 51 per cent. of revenue with the balance of sales generated from the other gas suppliers. UKGC contracts directly with the consumer on a meter by meter basis, with each individual project covered by a separate contract.

Competitive landscape

The Directors believe that UKGC has limited competition. In general gas suppliers who do not outsource their connections work to UKGC manage the administration of this activity in-house. The provision of these services is critical to the consumer, as the average value of a gas connection project is relatively small compared to the potential costs which may be associated with failure to deliver the gas supply on time. Consequently, gas suppliers demand an extremely high level of service which the Directors believe make it harder for new entrants, with no previous track record in this area, to enter the market and challenge UKGC on a volume basis. The administration of these projects requires an in-depth knowledge of the supply chain, if projects are to be delivered on time.

The Directors believe that UKGC offers a number of competitive advantages:

- Independence – this is critical to gas suppliers as well as being important to many consumers as it ensures continuation of service through changes in supplier.
- Expertise – the management of gas connection projects is complex. The Group has been in the market for over fifteen years and has built the specific expertise necessary to deliver projects on time.
- Core business – administration of gas connection projects is UKGC's core business.
- Service – the potential for high costs which may be associated with failure to deliver projects on time mean that suppliers and consumers need a service provider with a strong reputation for service.

Revenue model

UKGC operates on a "cost plus margin" model. Projects generally take around 3 months from origination to completion, with payment generally received in advance.

Sales and marketing

UKGC is focussed on building deep relationships with gas suppliers. Most of UKGC's client wins to date have been through referrals. UKGC will continue to actively seek opportunities to grow market share by ensuring costs are competitive and service levels remain very high.

SMS Group – UK Meter Assets

Background

UKMA is an OFGEM accredited MAM, engaged in the ownership, operation and management of gas meter assets, utilising the Group's comprehensive IT system to track, manage and bill for these assets.

There are eight standard gas meter installation types, accounting for approximately 85 per cent. of all meter installations in the UK and a further 26 non-standard meters, which account for the remaining 15 per cent.

UKMA's IT system, developed over a number of years, allows it to interface seamlessly with gas supplier customers and its output is tailored to meet the individual requirements of those customers. The IT system is currently operating at less than 5 per cent. capacity, giving considerable scope for growth without the need for major IT infrastructure investment.

UKMA is a highly systemised business, producing just 26 invoices monthly for gas suppliers, regardless of the number of meters managed for each supplier. Invoices are calculated, sent and validated through UKMA's IT system.

Service proposition

The following are UKMA's main routes to market:

New connections – UKGC frequently supplies meters sourced from UKMA as part of its connections management activities.

Management of 3rd party meter assets – UKMA is appointed by SSE to manage Meter Fit's meter portfolio as meter assets churn from other gas suppliers to SSE. In addition UKMA was appointed to manage Capital Meters' portfolio and subsequently purchased these in 2008. UKMA is also appointed by gas suppliers to manage meters where, due to the historic structure of the industry, the owner of the meter cannot now be identified. UKMA expects to exchange these meters for its own meters over time.

Functional exchanges – A functional exchange is where either a gas supplier or consumer wishes to exchange a credit meter for a prepayment meter (or vice versa) usually driven by the gas supplier. This service provides an opportunity to install (and thereafter generate rental on) new prepayment meter assets, as well as generating transactional revenue on third party and UKMA owned meters as payment for the exchange process.

UKMA owned meters which are removed during a functional exchange are generally re-deployed at the next opportunity as part of a future exchange request.

Adversarial exchanges – An adversarial exchange is a functional exchange where the gas supplier has to enforce the exchange because the consumer is reluctant to change or does not permit easy access. As with typical functional exchanges this results in an opportunity to install and generate new prepayment meter assets as well as generating transactional revenue as payment for both the enforcement and exchange process.

Smart-ready meter exchange programmes – With the current drive to introduce smart metering, it is expected that meter exchange activity will now largely be driven by the need to switch out existing meters for ones with pulsed output to enable smart metering as well provision and installation of a smart meter device. Market demand is being driven by government initiatives in smart metering and cutting carbon emissions which are expected to create significant levels of demand in the I&C market, resulting in both the provision of a pulse enabled meter through UKMA and an ADM solution through UKDM.

This activity is currently focussed on the I&C market and the Group has not assumed any growth in domestic smart-ready meter exchanges, although this represents a significant opportunity for the Group in the longer term.

Comprehensive IT systems

All MAMs must have an IT system in place, which at a minimum meets the requirements of the 'RGMA baseline', covering the basic data flows between MAM and gas supplier but not other data flows, such as those relating to invoicing. Gas suppliers currently interface with NGT using its Rainbow system. UKMA's IT system is based on both the industry RGMA specification and NGT's Rainbow framework and can interface seamlessly with gas supplier customers. All billing to gas suppliers is electronic and can therefore be validated and passed for payment very quickly.

UKMA utilises the existing industry gateways known as IX (favoured by the gas industry and used by NGT) and DTN (favoured by the electricity industry but also used by some gas suppliers) to manage communications with suppliers. Using these gateways makes it easier for gas suppliers to switch and interface with UKMA without changes to their existing systems.

Domestic gas meters "churn" when the gas supplier using the meter is displaced by another as the consumer exercises competitive choice. UKMA's system tracks this change and adjusts the billing accordingly to very fine tolerances (rental invoices are calculated on a pence per day basis) ensuring accurate invoices for gas suppliers.

The IT system has been stress tested to process and manage invoicing for 5 million meters with no significant degradation in performance. UKMA currently manages in excess of 220,000 meter assets. This therefore means that it is running at less than 5 per cent. capacity, leaving considerable scope for growth. The system is highly automated and its operation only requires a very small number of personnel to deal with exception reporting. The functional specifications of the system were developed in-house and the foreground and background intellectual property rights in the system are owned by the Group.

Clients

In the I&C market there are approximately 1.678m meter installations across the UK served by gas suppliers. The following have signed UKMA's standard service contract on materially similar terms: Centrica; GDF; Total; SSE; Scottish Power; Gazprom; and CNG. These suppliers represent over 80 per cent. of the UK's I&C Market.

In the UK domestic market there are approximately 21.28m meter installations served by 9 main gas suppliers and UKMA has established metering arrangements with all of them. Of these, SSE, Scottish Power, Utilita, OVO and First Utility have all signed UKMA's standard service contract on materially similar terms. These suppliers represent over 30 per cent. of the UK domestic market.

Competitive landscape

UKMA has few competitors, the majority of which operate in either the domestic or I&C markets but not both. UKMA, on the other hand, operates in both markets. The Directors believe that a key differentiator of UKMA is its independence from gas suppliers.

In addition to licenced gas transporters, which have a licence condition to provide gas meters, the following main competitors exist:

Domestic market

- Meter Fit;
- Capital Meters; and
- Onstream (owned by NGT).

I&C

- Energy Assets; and
- Onstream (owned by NGT).

Meter rental forms a very small proportion of a consumer's total gas bill, usually around 2 per cent., and the Directors believe that service is generally the key driver for gas suppliers choosing between MAMs. For the reasons described below, the Directors therefore believe that UKMA is well-positioned to compete in the UK MAM market.

The Directors believe that there are significant barriers to entry to the meter asset management market and that UKMA enjoys a number of competitive advantages:

- scalability – UKMA has already achieved trading profitability and does not require material funding or investment in its infrastructure to grow the business substantially;
- track record – UKMA has a demonstrable track record of providing high levels of efficiency in meter operation and billing, due mainly to its developed IT systems;
- UKGC gives UKMA exclusive access to a stream of new meter assets from the projects it manages; and
- UKDM's smart meter product represents another route to secure meter assets into UKMA.

Accordingly the Group is in the very strong position of being able to offer a full service from installation of gas meters to smart meter services.

Revenue model

UKMA derives its revenue by charging rental to gas suppliers for use of its meter assets. Most standard meters are installed at no initial cost to the supplier with the rental generated over the life of the asset more than covering the initial capital outlay. Rental moves annually in line with RPI providing UKMA with a revenue stream over the life of the asset.

To enable the Company to supply and install the asset at nil cost, it finances these costs through a mix of company reserves and a long-term limited recourse lease.

Sales and Marketing

UKMA's primary route to market is through gas suppliers. UKMA's sales strategy is based on identifying and contracting with the gas suppliers which control the significant majority of the market for gas connections and gas meter deployment and thereafter promoting the range of services of products under its MAM contract.

SMS Group – UK Data Management

Background

UKDM is an ESTA approved Automated Meter Reading company, whose business is the ownership, operation and management of meter reading devices, utilising the Group's IT system to track, manage and bill for the meter reads.

UKMA's existing customers requested that it provide cost-effective and reliable data collection services. Having assessed the existing products in the marketplace, the Company undertook to create a new, low cost and effective smart metering device. UKDM was established in December 2009 as a subsidiary of SMS. The Group has developed an international smart meter device (ADM) (patent pending) which is currently undergoing commercial trials and is suitable for use in both the gas, water and LPG industries.

Based on trial volumes the Directors have concluded that ADM is much cheaper to produce and install and significantly less expensive to retrieve and analyse data from than any other product service currently on the market. The addition of UKDM adds value to SMS's current service proposition, giving the Group's existing customers the full service offering from installation of gas meters through to smart metering services representing a significant opportunity for the Group to build further value from its existing customer base.

As well as the ability to generate a revenue stream in its own right UKDM also offers another route to secure meter assets into UKMA. Recent feedback from suppliers suggests that when purchasing the ADM product the suppliers are likely to request UKMA to replace the meter for a new one at the same time potentially providing further revenue to the Group.

Service Proposition

UKDM's core service involves the collection of data through ADM from UKMA and third party metering assets, providing control and secure storage of the information before presenting the data in a usable format to the gas supplier through a secure web portal. This service will allow the gas supplier and a range of approved users such as consultants and consumers access to the utility data. If required, the information could also be directed to a central database and can also be transferred to gas suppliers using IX and DTN thereby minimising the cost of providing the data.

UKDM is currently undertaking commercial trials on the ADM device in the I&C market to retrieve the meter reads. The ADM device has two main unique features:

- “plug and play” installation designed to reduce installation costs; and
- no programming required during commissioning, designed to increase meter read accuracy.

Comprehensive IT systems

UKDM's systems architecture has been built upon the same principles as UKMA providing full .Net Microsoft based software and SQL databases utilising UKMA's existing gateways for secure electronic communication.

As the Group holds the IPR for the system, it has been able to build in a number of bespoke functionalities. For example, UKDM has designed a unique user name and password mapping software, web interface and real time text alerts for abnormal consumptions.

Due to the importance of UKDM's IT systems to business operations, the Group has robust systems in place for disaster recovery. UKDM gained ISO 27001 for disaster recovery and data security in 2010.

Clients

UKMA has contracts with major gas suppliers who between them have over 80 per cent. of the I&C market and over 30 per cent. of the domestic market. Upselling UKDM services and the ADM device to these existing gas supplier customers may result in an accelerated market entry for UKDM.

Competitive landscape

Competition in this business area is limited because data collection companies must currently use one of two available smart meter products namely:

- the Cello device by the Technology Holdings Group; and
- the P2G device by Iskraemeco (UK) Ltd,

which represent the only other smart metering devices in the gas industry which are commercially available in the UK.

As explained above under the heading "Service Proposition", the Directors believe that the ADM device has two main patent pending advantages over the two devices mentioned above.

In March 2011, OFGEM released a report on smart metering roll-out in the UK domestic and small I&C (generally less than 73,200 kWh per annum consumption on an individual basis) markets. Subject to further consultation, OFGEM currently intends to introduce a single licensed entity (the Data Collection Company, or **DCC**) to collect data from smart meters in these markets. It is not currently clear how UKDM's data management proposition will be affected by the DCC's role, if it is introduced. The Directors intend to continue to actively participate in the OFGEM consultation process and will assess on an ongoing basis the opportunities and challenges for UKDM which may arise as a result of the OFGEM proposals.

Sales and marketing

The Group currently has contracts with gas suppliers who control over 30 per cent. of the domestic market and 80 per cent. of the I&C market. UKDM's primary route to market will be to upsell its product and services to these gas suppliers.

The nature of the ADM device and the metering assets which it supports is such that the Directors believe that further opportunities exist for UKDM to enter the water and LPG meter asset management markets in the UK, and smart meter markets internationally.

Software has been developed which includes a facility to upload electricity reads from a third party's device. The Group intends to explore electricity read uploads further with a view to providing UKDM's customers with a one stop shop for collecting reads from all their utilities. In the future, UKDM may offer its services across the gas, water, LPG and electricity markets in the UK and internationally, potentially through strategic partnerships.

SMS Group – SMS (IP)

SMS (IP), incorporated in 2010, acquired all material intellectual property rights of the Group in 2011 and holds them separate from the trading entities. SMS (IP) holds:

- the background and foreground IP for all bespoke software systems; and
- the patent pending for the ADM device.

SMS (IP) has not yet traded. The Directors intend to put a licence and framework agreement in place to allow SMS (IP) to gain revenue from other companies within the Group.

Historical financial trends and earnings quality of the Group

The information set out below refers to past performance. Past performance is not a reliable indicator of future results. Prospective investors should read the whole of the information set out in this document and not rely solely on the summary financial information set out below. In particular, your attention is drawn to Parts IV and V of the document.

SMS has delivered the following compound annual growth* over the last 3 years:

- Revenues: 16.6%
- EBITDA: 96.3%
- Net Assets 198.8%

* as derived from the historical consolidated financial information on the SMS Group for the 3 years ended 31 December 2010 set out in Part IV of this document

Income Statement*

	Y/E 31 Dec 2008 £'000	Y/E 31 Dec 2009 £'000	Y/E 31 Dec 2010 £'000
Turnover	9,098	9,814	12,368
Gross Profit	2,736	4,291	5,687
Margin	30.1%	43.7%	46.0%
EBITDA**	800	2,165	3,084
EBIT**	679	1,799	2,237
	7.5%	18.3%	18.1%
EBT**	773	1,599	1,916

* as extracted from the historical consolidated financial information on the SMS Group for the 3 years ended 31 December 2010 set out in Part IV of this document

** Excluding exceptional items in 2008 & 2010

The historical income statement above details the growth over the last 3 years. Whilst turnover has shown strong growth, of particular note are a few key areas that benefit from the rate of growth in meter assets within the business:

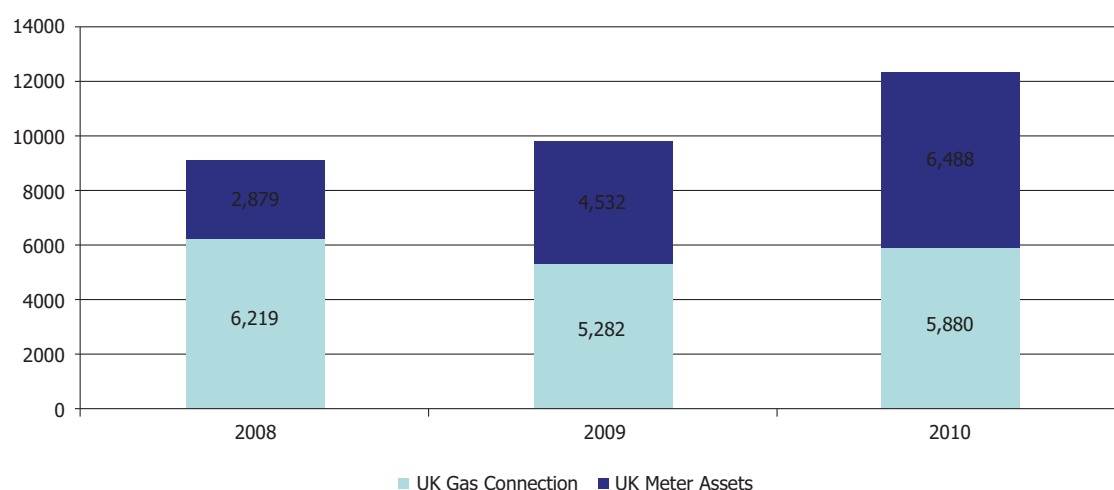
- gross profit margin is increasing steeply as the cost of sales of originating meter assets within each year is only affected by the actual meters installed in that year. Previous years' installed meters deliver revenues without incurring any further cost to derive this revenue. This compounding effect will continue to drive generally stable increases in gross margin.
- EBIT is increasing due to the fixed overheads structure related to the operation of the business. This illustrates the effect of the scalability of the business with no further significant investment in resources.

Balance Sheet*

	Y/E 31 Dec 2008 £'000	Y/E 31 Dec 2009 £'000	Y/E 31 Dec 2010 £'000
Assets			
– Non-current	4,529	10,186	14,682
– Current	6,350	3,067	3,333
Total Assets	10,879	13,253	18,015
Liabilities			
– Current	6,488	6,397	7,271
– Non-current	4,220	5,514	9,217
Total Liabilities	10,708	11,911	16,488
Net Assets	171	1,342	1,527

* as extracted from the historical consolidated financial information on the SMS Group for the 3 years ended 31 December 2010 set out in Part IV of this document

Historical Financial Trends on Earnings*



* as derived from the statutory accounts of each of UKMA and UKGC for the respective years.

- UKGC's income is transactional and derived from non exclusive arrangements with gas suppliers to deliver a gas connections service which is integrated at various levels through the gas suppliers' businesses.
- UKMA's income is rental on gas meters which moves annually in line with RPI. This provides cover for the outstanding debt, raised to finance the meter. In addition, meter rental income is not dependent on gas consumed through the meter – it is not a commodity based rental (i.e. no exposure to commodity prices or the volume of gas used by a consumer). Recurring income is rapidly becoming dominant as can be seen from the above graph.

Current Trading and Prospects

There has been no significant change in the trading or financial position of the Group since 31 December 2010, being the date of the last audited results. Current trading continues in line with Directors' expectations.

As set out in Part V of this document, the Directors estimate that on the basis set out therein the turnover, gross profit and EBITDA of the Group for the 6 month period ending 30 June 2011 will be approximately £6.8 million, £3.5 million and £2.2 million respectively.

UKMA has grown steadily in both meter ownership and management and has managed to reach a significant milestone in achieving ongoing profitability and strong growth through a severe recession. The Directors believe that this is a good indication of the strength of the business and the quality of the assets that the Group invests in.

This period of relative growth has allowed the Group to invest in and develop a strong business model that is designed to stand up to competitive pressure, an established fit-for-purpose IT system, a strong and robust contract structure, a number of large corporations as clients and a patent pending smart metering solution that is designed to unlock further profitable growth.

The Group's executive management team is focussed on building SMS as the largest major independent smart metering business by number of meters owned and managed and as a leading provider of smart metering for utility and energy use in the UK and, potentially, internationally.

The Directors believe that a solid platform for growth has been achieved, and that the net proceeds of the Placing available to the Group will enable it to continue to develop existing relationships, and take advantage of new opportunities as they arise.

Hedging

The Group maintains and the Directors expect to continue with a treasury and commercial hedging policy to cover interest rate exposures, as the Directors consider appropriate.

Dividend Policy

The Directors believe that the Group will continue to have the potential to be cash generative in the future. Having regard to the requirement for capital expenditure to achieve the strategic objectives of the business, the Directors intend to adopt a dividend policy that will take account of the Group's profitability, underlying growth and availability of cash and distributable reserves, while maintaining an appropriate level of dividend cover. The Directors may amend the dividend policy of the Group from time to time and the above statement regarding the Board's dividend policy should not be construed as any form of profit forecast.

Subject to the Group's financial performance, the Directors intend to declare and the Company intends to pay a maiden dividend as a public company as an interim dividend for the financial year ending 31 December 2012 which is intended to be paid in November 2012. The Group expects to be profitable and cash generative and intends to declare and pay interim and final dividends (in November and May respectively) to Shareholders annually according to its financial performance. All of the Ordinary Shares in issue at Admission will rank *pari passu* for the payment of dividends.

Reasons for Admission and Use of Proceeds

The Group is in a phase of substantial asset investment which the Directors believe will lead to significant growth in the Group's business.

The Directors consider that Admission will be an important step in the Group's development, will enhance its profile and standing within its market place and could assist the growth of its business. Generally, broadening the Group's capital base through flotation on AIM gives the Company the capacity, if required, to raise additional capital to support its strategic objectives as suitable opportunities arise.

Admission is also expected to provide liquidity for investors through the ability to buy and sell Ordinary Shares, providing a more diversified shareholder base and allow the Selling Shareholders to realise part of their investment through the disposal of Sale Shares as part of the Placing.

The Directors believe that Admission will also provide opportunities for the Group to attract, retain and incentivise high calibre employees through the operation of Share Schemes which allow employees to participate in the future success of the Group.

The Placing of the New Ordinary Shares will raise up to approximately £8.65 million (net of expenses) for the Company. The Directors believe that a solid platform for growth has been achieved, and that the funds available to the Company from the Placing will enable the Group to continue to grow and to take advantage of new opportunities as they arise. In particular, the net proceeds of the Placing available to the Company, together with the Group's existing cash resources, will be substantially utilised to fund (potentially in combination with new bank debt) the purchase of further meter assets.

The Placing and Admission

Pursuant to the Placing, the Company is issuing 16,666,667 New Ordinary Shares representing 20 per cent. of the Enlarged Issued Share capital of the Company following the Placing. At the Placing Price, the Placing of New Ordinary Shares will raise approximately £8.65 million (net of expenses) for the Company. In addition, 28,333,333 Sale Shares are being placed on behalf of the Selling Shareholders.

Cenkos has agreed, pursuant to the Placing Agreement and conditional, *inter alia*, on Admission, to use its reasonable endeavours to place the Placing Shares, including the Sale Shares, with institutional and other investors. The Placing, which is not being underwritten, is conditional, *inter alia*, upon:

- the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- Admission becoming effective not later than 8 July 2011, or such later date as Cenkos and the Company may agree, being not later than 15 July 2011.

The New Ordinary Shares rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, paid or made after the date of issue. The Selling Shareholders will be responsible for all stamp duty on the Placing of the Sale Shares and the Sale Shares will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, paid or made after the date of the Placing.

Kevin Lyon and Nigel Christie have undertaken to subscribe £75,000 and £48,000 for Placing Shares respectively at the Placing Price as part of the Placing.

None of the Placing Shares has been marketed to or will be made available in whole or in part to the public in conjunction with the application for Admission. The market capitalisation of the Company immediately following the Placing, at the Placing Price, will be approximately £50 million. Application has been made to the London Stock Exchange for the Ordinary Shares, issued and to be issued, to be admitted to trading on AIM. Admission is expected to become effective and dealings in the Ordinary Shares are expected to commence on 8 July 2011.

Further details of the Placing Agreement are set out in paragraph 13.2 of Part VII of this document.

Significant Shareholder Arrangements

Lock-in Arrangements

Stephen Timoney and Alan Foy (for themselves and persons associated with them) have undertaken to the Company and Cenkos not to dispose of their respective interests in Ordinary Shares for a period of 12 months following Admission. In addition, Stephen Timoney and Alan Foy have undertaken to the Company and Cenkos that for the 12 month period immediately following the expiry of the lock-in period referred to above, any disposal of Ordinary Shares held by them shall only be made through the Company's brokers at the relevant time and having given prior written notice to Cenkos (or the then broker to the Company) with a view to maintaining an orderly market in the Ordinary Shares. However, notwithstanding the Lock-in Agreements and the orderly market arrangements, these Shareholders may transfer their Ordinary Shares in accordance with the provisions of Rule 7 of the AIM Rules for Companies.

Details of the Lock-in Arrangements are set out in paragraph 13.3 of Part VII of this document.

Relationship Agreements

The Company is controlled by Stephen Timoney, the Company's Deputy Chairman. On Admission, Stephen Timoney's interest in the Company will be approximately 30 per cent. of the Enlarged Issued Share Capital. It is the intention of the Directors that SMS Group will operate autonomously. To that end Stephen Timoney has entered into a Relationship Agreement with the Company in order to regulate his interests and potential influence on the operations of the Group. The agreement requires Stephen Timoney to exercise his rights so as to ensure that the Company operates independently of him and that all dealings between the Group and him are approved by the Board and are conducted on an arm's length basis.

Additionally, on Admission, Alan Foy's interest in the Company will be approximately 16 per cent. of the Enlarged Issued Share Capital. Alan Foy has also therefore separately entered into a Relationship Agreement with the Company, in order to regulate his interests and potential influence on the operations of the Group. The Agreement requires Alan Foy to exercise his rights so as to ensure that the Company operates independently of him and that all dealings between him and the Group are approved by the Board and conducted on an arms' length basis.

Details of the Relationship Agreements are set out in paragraph 13.4 of Part VII of this document.

Directors, Senior Management and Employees

The Board

At Admission, the Board of the Company shall comprise 3 executive Directors and 2 non-executive Directors whose biographical details are as follows:

Executive Directors

Stephen Timoney (aged 46), Deputy Chairman

Steve founded the Group in 1995. Prior to starting the business, he spent 14 years with British Gas Transco (now NGT) working within the engineering function with specific responsibility for gas pipelines and meter assets. He then moved on to work for Shell UK as Commercial Manager (Scotland) responsible for all commercial aspects of the marketing of natural gas to consumers. Steve became the recognised expert on contract development under the Network Code regime and was also responsible for setting up systems and procedures for the management of gas connection projects. Steve is a professional engineer and also has a Masters Degree in Corporate Leadership, studying both at Emory University, Atlanta and Napier University, Edinburgh, graduating with distinction in 2006.

Alan Foy (aged 44), Chief Executive Officer

Alan has responsibility for business growth, client management and business operations. Prior to joining SMS in 2004, Alan worked for Scottish Power and in 1997, gained approval to establish its regulated gas transportation and metering business, SP Gas Ltd, which under his management grew to become a major iGT in the UK. He gained considerable experience in utility asset ownership, as well as supply and shipping activities. Working within very complex and regulated frameworks, his position required a full understanding of utility business activities such as customer recruitment, licensing, regulation, safety, commercial, IT, investment and financial policies. Prior to this Alan was a director of an international energy consultancy practice specialising in energy utilisation and design.

In addition to adding valuable experience to the overall business, during his tenure with SMS Group Alan has successfully implemented a restructuring and systemising of the Group's activities, as well as successfully gaining and retaining new customers and contracts. A professionally qualified engineer, Alan places strong emphasis on safety, operational performance and financial accountability. He also places great importance on training of staff members to ensure they are receptive and adaptable to business needs and operate to a high level of efficiency and customer satisfaction

Glen Murray (aged 43), Finance Director

Glen joined the SMS Group in 2009 as a business accountant prior to assuming his current role as Finance Director. A qualified Accountant and experienced financier, he provides the business with the structure and controls to diligently manage and report on all business activities. Glen has key responsibility for financial reporting, business plan modelling and business performance monitoring and reporting against the plan. Glen qualified with French Duncan in 1995 and in 1997 joined Shin-Etsu Handotia Europe as an accountant, with responsibilities including treasury management, budgetary control, monthly branch accounts and management accounting. He later joined Gilchrist & Company (which merged with Baker Tilly in May 2009) as a senior manager responsible for a team of five delivering accountancy, audit, corporate finance and VAT services.

Non-Executive Directors

Kevin Lyon, (aged 49), Chairman and Non-Executive Director

A qualified chartered accountant, Kevin spent two years in merchant banking before joining the UK's leading private equity business, 3i plc. In a 17 year career with 3i, Kevin built and developed several successful investment teams across the UK and led transactions in a wide range of sectors, many leading to profitable exits or successful stock exchange listings. He also held a number of leadership and management positions including latterly managing director, UK Private Equity. He left in 2004 and, in the last six years, he has served as an independent chairman or non-executive director on 14 boards. Of these, he has taken three to a public listing to raise capital or deliver an exit for shareholders, has sold eight in line with shareholder strategy and orchestrated a secondary MBO of two. Kevin is currently chairman of each of AIM-quoted Valiant Petroleum plc, and of Mono Global Group Limited. He also currently serves as an independent director of David Lloyd Leisure Group. He was chair of the audit

committee and senior independent director of Booker plc, a £3.5 billion revenue wholesale cash and carry business, when it floated on AIM in June 2007. He graduated from Edinburgh University in 1982 and has attended Management and Business Development courses at INSEAD, IESE and Ashridge.

Nigel Christie (aged 62), Non-Executive Director

Nigel has served in various management positions within corporate finance departments of investment banking firms. He began his career in 1976 at Kleinwort Benson, working in both London and New York. From 1985 to 1989, he was a managing director in the corporate finance department of S.G. Warburg, New York. Between 1989 and 1991, Nigel served as managing director of the corporate finance department of Kidder, Peabody International where he was responsible for overseeing European mergers and acquisitions. From 1991 to 1995, Nigel was a director of MacArthur & Co. Limited, following which he worked for Columbus Asset Management between 1995 and 1999 and Value Investing Partners, Inc. between 1999 and 2000. From 2000 to the present day, he has been a director of RP&C International, an investment banking firm providing specialist advisory services to public and private companies. Amongst other directorships, Nigel currently serves as chairman of AIM - quoted Maple Energy plc and is a member of Maple Energy plc's audit committee on which he acts as chairman. He graduated from the University of St. Andrews in Scotland and attended the Program for Management Development at Harvard Business School.

The Board currently intends to appoint a further non-executive Director within 12 months from the date of Admission. Further information on each of the Directors is set out in paragraph 7 of Part VII of this document.

Senior Management and Operational Team

The biographical details of the senior managers of the Group are set out below:

Bill Turner

Bill is managing director of UKDM, the Group's data management division. He joined the business in 2008 and is responsible for sales, marketing, client relationship management and product design. Bill has extensive experience of the Group's customer base and other related markets as a director of the Stiehl Group, and then Alfred McAlpine, where Bill successfully grew their facilities management businesses focusing on service delivery against some demanding service level agreements. Bill is a Chartered Engineer with over 30 years of experience within building services, facilities management and energy related industries. He has been heavily involved in the strategic development of the businesses he has worked in and has been a driving force behind, growth, development and customer relationships across the UK. He has also developed strong business intelligence, contractual and commercial control skills. He has a depth of experience in account and client management and is a natural innovator when it comes to establishing successful business solutions and models.

Bill is responsible for driving marketing initiatives and developing strong customer relationships, allowing valuable sales to be developed from cross selling to existing key clients. He is also responsible for identifying and designing variations on our products and services to create a portfolio of individually tailored solutions to the Company's clients building strength and loyalty as a result.

Claire Corrins

As Head of Business for UKMA, Claire is responsible for domestic and I&C meter portfolio, domestic meter operations and smart metering co-ordination. This role involves liaising with the gas suppliers, managing a network of service providers and ensuring that the team is motivated to provide a high level of service – all to enable UKMA to expand its portfolio of services, and assets. An Engineering graduate of the University of Glasgow, Claire joined the Group in 2004 in the UKGC business where her technical background, coupled with a passion for providing customer service, was a sound fit.

In her role with UKMA Claire can now expand upon the relationships built up with gas suppliers in UKGC and the industry knowledge gained while providing a focus on people management and an attention to detail that this high volume, data driven business requires. As part of her development within the Group, Claire honed her leadership skills by studying best practice in leadership and innovation in America with some of the world's top companies. This experience has assisted Claire to grow the UKMA team and to create new business processes tailored to the client's needs.

Andy Ritchie

Andy joined the business in 1998 from Fusion Group plc, SMS's current supply chain logistics and meter asset provider (through its subsidiary Meter Provida). Andy has spent over twenty years in the gas industry and fourteen years with Smart Metering Systems. He is Head of Business for UKGC with responsibility for ensuring long lasting relationships in the Industrial & Commercial sector and delivering a consistently positive Customer Experience. Additionally he has responsibilities for management of suppliers and contractors throughout the supply chain together with programming and management of all planned works including meter exchange programmes. He has held a number of roles within the Group, developing a significant number of initiatives within the domestic metering business, developing the business supply chain, and providing technical expertise across the organisation.

Bimal Kumar

Bimal is employed by the Company on a part-time basis and is also employed by Globrin. Bimal has key responsibility for delivery of the IT projects. Bimal holds a Master's and PhD degrees in Software Development from Glasgow and Edinburgh Universities respectively. He is a Professional Member of the British Computer Society and a Chartered IT Professional (CITP), the American Society of Civil Engineers and the Institution of Engineers of India. He is well known for his work on the application of artificial intelligence/knowledge-based systems to structural design - this has resulted in two books and numerous publications. He is also the founding Secretary/Treasurer of the European Group for Structural Engineering Applications of Artificial Intelligence (EG-SEA-AI), now called European Group of Intelligent Computing in Engineering (EG-ICE). He sits on the Editorial Boards of two international journals – 'Advanced Engineering Informatics' and 'Advances in Engineering Software'. Bimal has chaired numerous international conferences on IT and AI in Structural and Construction Engineering. He has regularly been invited to run courses and seminars on IT and AI in Engineering and Construction in various countries around the world including Portugal, Greece, Malta, Indonesia, Switzerland and India. He has been a visiting faculty member at Stanford University in the USA and Malta University. Bimal has regularly been involved in various IT training and consultancy projects for major organisations such as Learning Tree International. His involvement with Globrin spans over 12 years during which he has overseen software development and support projects for small to very large international blue-chip organisations.

Number of Employees

The Group's head office and operations are located in Glasgow, Scotland. As of 31 May 2011, the Group had 40 employees (including the executive directors). The breakdown of the average number of employees and their respective activities over the previous 3 financial years is set out in the table below.

	2008	2009	2010	31 May 2011
Directors	3	3	3	3
Finance staff	2	4	4	4
Office Management	—	1	—	—
Data Analyst	1	1	1	3
Training	—	—	2	1
UKGC operations	6	6	12	11
UKMA operations	3	6	9	16
UKDM operations	—	—	2	2
Other	2	2	2	0
Total	<u>17</u>	<u>23</u>	<u>35</u>	<u>40</u>

The Group recognises the importance of a highly skilled and motivated workforce and has developed a strong customer service culture within the business. In this regard the Group has implemented staff learning and development programs.

Share Schemes

The Directors believe that the success of the Group will depend to a high degree on the future performance of the management team. The Directors also recognise the importance of ensuring that employees are well motivated and identify closely with the success of the Group. The Directors regard equity participation to be an important aspect of the Group's ability to attract, retain and incentivise its key staff.

In order to provide an equity incentive to senior management team members and to employees of the Group the Company has established a Company Share Option Plan, an Unapproved Share Option Plan and a Share Incentive Plan.

Subject to the Company having received formal approval from HM Revenue and Customs for the Company Share Option Plan before Admission, the Company will have granted Share Options under the Company Share Option Plan to the senior management team and key employees at the Placing Price. If formal approval from HM Revenue and Customs has not been received before Admission the Company intends to grant Share Options under the Company Share Option Plan to the senior management team and key employees as soon as formal approval is received. In this event the exercise price will be the then market value of an Ordinary Share. These Share Options are, or will be, subject to performance conditions set by the Remuneration Committee.

The senior management team and key employees have been granted Share Options under the Unapproved Share Option Plan at the Placing Price. These Share Options are subject to performance conditions set by the Remuneration Committee.

Share Options have also been granted to the non-executive Directors and to a key employee at the Placing Price. The non-executive Directors and this key employee are not entitled to participate in the Company Share Option Plan or the Unapproved Share Option Plan. Their Share Options are therefore unapproved share options granted by way of stand-alone agreements between the Company and each of these individuals.

The Company intends to make the first awards under the Share Incentive Plan to all employees in January 2012. Employees will be offered Partnership Shares and Matching Shares.

On Admission (or shortly thereafter if formal approval of the Company Share Option Plan has not been obtained before Admission) the Company will have outstanding Share Options over 4,534,167 Ordinary Shares representing approximately 5.4 per cent. of the Enlarged Issued Share Capital.

The Share Options granted to the non-executive Directors represent 0.86 per cent. of the Enlarged Issued Share Capital, and the Share Options granted to the senior management team and key employees represent, or will represent, 3.24 per cent. of the Enlarged Issued Share Capital.

In aggregate, no more than 10 per cent. of the Enlarged Issued Share Capital can be subject to Share Options or awards under the Share Incentive Plan at any one time.

Further details of the Share Options that have been granted to the Directors and key employees are set out in paragraphs 8.2 and 9.6 of Part VII.

Further details of the terms of the Share Schemes are set out in paragraph 15 of Part VII.

Corporate Governance

The Company intends following Admission, so far as is practicable and appropriate for a company of its size and nature, to comply with the provisions of the Corporate Governance Code, as modified by the recommendations of the Quoted Companies Alliance ("QCA"). The Company has appointed two, independent, non-executive Directors to bring an independent view to the Board, and to provide a balance to the executive Directors.

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Directors intend to hold meetings of the Board ten times in the year following Admission and thereafter four times per annum, and at other times as and when required. Conditional on Admission, the Group has established audit, remuneration and nomination committees with formally delegated duties and responsibilities.

Audit Committee

The Audit Committee will have the primary responsibility of monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It will receive and review reports from the Group's management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee will meet not less than twice in each financial year and will have unrestricted access to the Group's external auditors. At Admission, the Audit Committee shall be chaired by Nigel Christie and also comprise Kevin Lyon.

Remuneration Committee

The Remuneration Committee will review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time. The Remuneration Committee will meet as and when necessary. In exercising this role, the Directors shall have regard to the recommendations put forward in the QCA Guidelines and, where appropriate, the Corporate Governance Code guidelines. At Admission, the Remuneration Committee shall comprise Kevin Lyon (as chairman) and Nigel Christie.

Nomination Committee

The Nomination Committee will consist of a committee chaired by Kevin Lyon and also comprising Nigel Christie and Alan Foy. The Nomination Committee will consider the selection and re-appointment of Directors. It will identify and nominate candidates to fill Board vacancies and review regularly the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes.

Share Dealing Code

The Board intends to comply, and to procure compliance, with Rule 21 of the AIM Rules relating to dealings in the Company's securities by the Directors and other applicable employees. The Company has adopted a code for directors' dealings appropriate for a company whose shares are admitted to trading on AIM and will take all reasonable steps to ensure compliance by the Directors and any relevant employees. The form of this code is substantially the same as the model code contained in the Listing Rules.

The Takeover Code – Mandatory Bid

The Takeover Code is issued and administered by the Takeover Panel. The Company is subject to the Takeover Code and therefore all Shareholders are entitled to the protection afforded by it.

Under Rule 9 of the Takeover Code when (i) a person acquires an interest in shares which (taken together with shares in which he and persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company subject to the Takeover Code, or (ii) a person who, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. and no more than 50 per cent. of the voting rights of a company subject to the Takeover Code, and such person, or any persons acting in concert with him, acquires an interest in any other shares which increases the percentage of the shares carrying voting rights in which he is interested, then in either case, that person together with the persons acting in concert with him, is normally required to extend a general offer in cash, at the highest price paid by him (or any persons acting in concert with him) for shares in the company within the preceding 12 months, to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class or transferable securities carrying voting rights not already held by them.

Squeeze-out

Under the Act, an offeror which makes a takeover offer for the Company has the right to buy out minority Shareholders where it has acquired (or unconditionally contracted to acquire) not less than 90 per cent. in value of the shares to which the offer relates and not less than 90 per cent. of the voting rights in the Company. It would do so by sending a notice to the outstanding minority Shareholders telling them that

it will compulsorily acquire their shares. Such notice must be sent within three months of the last day on which the offer can be accepted. The notice must be made in the prescribed manner. The squeeze-out of the minority Shareholders can be completed at the end of six weeks from the date the notice has been given, following which the offeror can execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for the outstanding minority Shareholders. The consideration offered to the outstanding minority Shareholders whose shares are compulsorily acquired under the Act must, in general, be the same as the consideration that was available under the takeover offer.

Sell-out

The Act also gives minority Shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer for the Company, provided that at any time before the end of the period within which the offer can be accepted, the offeror has acquired (or unconditionally contracted to acquire) not less than 90 per cent. in value of the shares to which the offer relates and not less than 90 per cent. of the voting rights in the Company. A minority Shareholder can exercise this right by a written communication to the offeror at any time until three months after the period within which the offer can be accepted or a later date specified in the notice given by the offeror. An offeror would be required to give the remaining Shareholders notice of their rights to be bought out within one month from the end of the period in which the offer can be accepted. The offeror may impose a time limit on the rights of the minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a Shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

Settlement and CREST

Application has been made for all of the Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place in CREST if the relevant Shareholder so wishes. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a share certificate and transferred otherwise than by written instrument. The Articles permit the holding and transfer of Ordinary Shares under the CREST system. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so. Persons acquiring shares as a part of the Placing may elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a “system-member” (as defined in the CREST Regulations) in relation to CREST.

It is expected that, subject to the satisfaction of the conditions of the Placing, the Placing Shares will be registered in the names of the placees subscribing for them and issued either in certificated form, where the placee so elects, with the relevant share certificate expected to be dispatched by post, at the placees risk, or in CREST, where the placee so elects and only if the placee is a “system member” (as defined in the CREST Regulations) in relation to CREST, with delivery (to the designated CREST account) of the Ordinary Shares subscribed for expected to take place in CREST on 8 July 2011. Notwithstanding the election by placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at their risk. Pending the dispatch of definitive share certificates (as applicable), instruments of transfer will be certified against the Company’s register of members.

Taxation

Your attention is drawn to the taxation section contained in paragraph 17 of Part VII of this document. If you are in any doubt as to your tax position, you should consult your own independent financial adviser immediately.

Further information

Your attention is drawn to the additional information set out in Parts II to VII of this document.

PART II

RISK FACTORS

The attention of prospective investors is drawn to the fact that ownership of Ordinary Shares will involve a variety of risks which, if they occur, may have a materially adverse effect on the Group's business and financial condition and the market price of the Ordinary Shares could decline. In addition to the information set out in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company. Potential investors should carefully consider these in light of the information in this document and their personal circumstances. In particular, the Group's performance might be affected by changes in market and/or economic conditions and in legal, regulatory and tax requirements. Additionally, there may be other risks of which the Board is not aware or believes to be immaterial, which may, in the future, adversely affect the Group's business and the market price of the Ordinary Shares.

The investment opportunity offered in this document may not be suitable for all recipients of this document. Investors are therefore strongly recommended to consult an investment adviser authorised under FSMA, or such other similar body in their jurisdiction, who specialises in advising on investments of this nature before making their decision to invest. An investment in the Company is suitable only for potential investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. Prospective investors should be aware that the value of the Ordinary Shares and income from them may decrease and investors might lose all or part of their investment. The following risk factors are not set out in any order or priority.

Group specific risks

Any failure of physical infrastructure or services of the Group could lead to significant costs and disruptions that could reduce revenues, harm the Group's reputation and have a material adverse effect on financial results.

The Group's business is dependent on its IT infrastructure. Service interruptions and equipment failures may expose the Group to financial loss and damage its reputation, which could have a material adverse effect on the Group's business, financial condition and results of operations. The Group's business includes the ownership and management of gas meters. If the Group fails to register a meter(s) on its IT system, wrongly classifies a meter or it loses track of a meter(s) within the system then this could also have a material adverse effect.

The Group's IT infrastructure is subject to failure from a variety of causes largely outwith the Group's control, including human error, equipment failure, power loss, failure of services related to the internet and telecommunications provided by the Group, physical or electronic security breaches, as well as factors outwith the Group's control, such as sabotage, vandalism, system failures of network service providers, fire, earthquake, volcanic ash, flood and other natural disasters, water damage, fibre optic cable cuts, power loss not caused by the Group, improper building maintenance by the landlords of the buildings in which the IT infrastructure is located and terrorism.

Dependency on key customers, terms of contracts, financing costs and performance levels

In its UKMA business, the Group is largely dependent on a small number of key gas suppliers with which it has entered into commercial contracts. Whilst there are termination provisions within such contracts which are designed to protect the Group in the short term, loss of one or more of these key customers could have a material adverse effect on the future growth of the Group's business. In addition, approximately 90 per cent. of the UKMA business revenue at the end of December 2010 was derived from consumers who are customers of suppliers which had contracted with the Group for meter asset management. The balance of the revenue was derived from consumers who had changed gas supplier to non contracted suppliers. In the event that such non contracted supplier used another MAM and management of the gas meter was changed to the new asset manager, then the Group would suffer a loss in revenue and would not benefit from the contract termination provisions outlined above.

The key contracts with gas suppliers oblige the Group to fulfil certain performance obligations. In particular, the Group is required to provide meter assets for an agreed price. If the Group enters into such contracts on uneconomic terms or was unable to secure appropriate levels of asset finance on suitable terms then this would have a material adverse impact on the Group's business, financial condition and results of operations.

In addition, should the Group be unable to meet an appropriate level of service in its UKGC business this may damage its reputation and could reduce the confidence of the Group's customers and users of its services, impairing its ability to retain existing customers and users and attract new customers and users.

The Group may experience unforeseen delays and cost overruns when rolling out new and upgrading existing products and services

Management effort and financial resources are being employed by the Group in rolling out the ADM Device. In addition, the Group periodically upgrades and replaces its IT infrastructure. Although the Group has budgeted for expected costings, additional expenses in the event of unforeseen delays, cost overruns, unanticipated expenses, regulatory changes, and increases in the price of equipment may negatively affect the Group's business, financial condition and results of operations.

The Group has considerable experience in forecasting and managing project implementation timetables. However, it may in the future experience unforeseen delays and expenses in connection with a particular project or initiative.

The Group may experience accelerated demand for its products and services

The Group expects to be able to meet its current capital expenditures from internal resources, debt facilities and the net proceeds of the Placing. In the event that the Group wins a large order for ADM devices and/or new smart meters then the Group may consider supporting the working capital requirements for such order(s) by way of an issue of new equity or debt finance or a combination of both. If the Group is unable to raise the necessary financing it could adversely affect the Group's ability to expand its business.

The Group could be subject to increased operating costs, as well as claims, litigation or other potential liabilities, in connection with the security and control of the Group's systems and the personal data of users.

The Group relies on systems and personnel in the Group's locations to physically secure IT infrastructure and user data. Any accidental or intentional actions, including computer viruses and unauthorised access, as well as other disruptions could result in increased operating costs or claims. The Group may incur significant additional costs to protect against such disruptions, the threat of security breaches (whether physical or electronic) or to alleviate problems caused by such interruptions or breaches.

A party who is able to breach the physical premises and/or electronic security measures of the Group's systems could damage the Group's equipment and/or misappropriate either its proprietary information or the personal information of the Group's users and cause interruptions or malfunctions in its operations. If a third party were able to misappropriate data held on the Group's system then the Group could be subject to claims, litigation or other potential liabilities. Whilst security remains one of the Group's highest priorities, there can be no certainty that the security of its systems will not be breached and the information of the Group's clients and customers put at risk. Any security breach (whether physical or electronic) could have a serious effect on the Group's reputation and could lead to a loss of customers, and/or existing customers seeking to claim damages. This could have a material adverse effect on the Group's business, financial condition and result of operations or future growth.

The Group is experiencing rapid growth. If the Group is not able to effectively manage its growth, its operations could be damaged and profitability reduced

The Group's business and operations have experienced rapid growth. If the Group fails to effectively manage this growth in the future, its operations could be harmed. This future growth could place significant demands on the Group's operational and financial infrastructure. If the Group is unable to effectively manage its growth its operations could be harmed and profitability reduced. The growth of the Group's sales and profits in the future will depend, in part, on its ability to expand its operations

through the roll-out of new products, the exchange of existing gas meters and the launching of its services into new markets and geographies. Furthermore, in order to manage its planned expansion, it will need continually to evaluate the adequacy of its management capability, operational procedures, financial controls and information systems. Accordingly, there can be no assurance that the Group will be able to achieve its expansion goals on a timely or profitable basis.

The Group's expenses include fixed costs

Certain of the Group's costs are fixed and may not be easily reduced in the short-term. Therefore, the Group may not be able to reduce certain expenses promptly in response to any reduction in revenue. Should such a reduction occur and the Group be unable to reduce its fixed expenses accordingly, the Group's business, financial condition and results of operations would be materially adversely affected.

The Group may acquire other businesses or assets if suitable opportunities become available

Any future acquisition poses integration and other risks which may significantly affect the Group's results or operations and the businesses that they may acquire may not turn out to be profitable. In addition, the operation and management of additional businesses, assets or customers may require additional resources, such as human or infrastructure resources. There can be no assurance that the Group will be able to procure the additional resources to cope with the growth in the number of assets under the Group's management.

Ability to attract and retain key executives, officers, managers and technical personnel

The Group is headquartered in Glasgow where the executive Directors and other key management are located. Attracting, training, retaining and motivating technical and managerial personnel, including individuals with significant technical expertise is a critical component of the future success of the Group's business. The Group may encounter difficulties in attracting or retaining qualified personnel. Continued growth may therefore cause a significant strain on existing managerial, operational, financial and information systems resources. The departure of any of the Group's executive officers or core members of its sales and marketing teams or technical service personnel could have a negative impact on its operations. In the event that future departures of employees occur, the Group's ability to execute its business strategy successfully, or to continue to provide services to its customers and users or attract new customers and users, could be adversely affected. The performance of the Group depends, to a significant extent, upon the abilities and continued efforts of its existing senior management. The loss of the services of any of the key management personnel or the failure to retain key employees could adversely affect the Group's ability to maintain and/or improve its operating and financial performance.

In common with many businesses, the success of the Group after Admission will, to a significant extent, be dependent on the expertise and experience of the Directors and key senior management, the loss of one or more of whom could have a material adverse effect on the Group. Whilst the Group has entered into service agreements with the Directors which will become effective on Admission, the retention of their services cannot be guaranteed. Despite key man insurance policies being in place for certain of the Directors, no assurance can be given that any amounts recoverable under such policies will adequately compensate for the loss of key such personnel.

ADM Device

The ADM Device does not currently fit OFGEM's proposed requirements for smart meters for the domestic market (as opposed to the I&C market) which require an integrated pre-payment/credit meter with communications capability. If OFGEM continues to require an integrated meter, the ADM Device will not meet these requirements for the domestic market as it is designed to be attached to an existing meter. The OFGEM proposed requirements would require integration of the smart meter and replacement of current meters. If such proposals are implemented it would mean that the Group would be unable to sell its ADM device into the domestic market.

Accreditation

The roll out of the ADM device is dependent on certain accreditation being obtained. Failure to obtain all necessary accreditation could delay or prevent the commercial launch of the device adversely affecting the Group's future growth.

Commercialisation

The rollout of the ADM device is dependent on the device meeting the commercial needs of the Group's customer and consumers. Failure of the ADM device to meet these needs or the emergence of a competing product or products which outperform or are considered in the market to be economically advantageous to the ADM device could delay or prevent the commercial launch of the device, adversely affecting the Group's future growth.

Authorisations

UKMA currently holds a certificate of authorisation issued by OFGEM which states that UKMA has demonstrated compliance against the MAMCoP Scope Category 1, 2, 3, and 4. Continued registration is conditional on compliance with MAMCoP and OFGEM (through Lloyds registers) carries out annual audits to ensure that the procedures and practices against which accreditation was awarded are consistently applied and maintained. The last such audit was carried out on 6 May 2011 and no material issues were raised. However, if in the future UKMA failed to maintain its registration as a fully approved MAM on the Lloyds list of registered providers then this would materially impact on the Group's business, financial condition and the results of operations.

Group relies on a limited number of large customers

The success of the Group's business is (and is expected to continue to be) dependent upon the continuation of commercial relationships with its customers. There is no guarantee that these relationships will continue or that customers will not seek alternative providers of smart metering services. UKGC has established relationships with a range of customers which they perceive can and will be maintained and developed by going forward. In the last financial year, around 51 per cent. of the income for UKGC has been generated from Total. In addition, Shell and GDF account for a further 31 per cent. of UKGC turnover with the balancing 11 per cent. being generated from consumers and its other three gas supplier customers.

UKMA has established relationships with a range of customers (on a contractual and non contractual basis) which they perceive can and will be maintained and developed by going forward. Around 70 per cent. of the income for UKMA has been generated from SSE – in addition Scottish Power and EON account for a further 13 per cent. of UKMA turnover with the balancing 17 per cent. being generated from other gas suppliers.

Third Party Assets managed by UKMA

UKMA manages certain meters on appointment by gas suppliers where the owner of the meters is not identified, although UKMA expects to exchange these meters with its own meter assets over time. It is possible that the owner of some or all of the meters may be identified before they have been replaced, and the owner may then seek rental payments, potentially including back-dated rental payments, from UKMA in respect of those meters. Were a successful claim of this nature to be made, the cost of settling it may have a material adverse effect on the Group's financial condition in the short term. UKMA would continue to manage these assets and derive management revenue unless de-appointed, in which case it would seek contractual termination charges from its contracted customers.

Protection of intellectual property

The Group has applied for certain patents and trademarks. Third parties may in the future attempt to challenge the ownership of and/or validity of the Group's intellectual property. In addition, the Group's business is subject to the risk of third parties replicating the Group's designs or otherwise infringing the Group's intellectual property rights. The Group may not always be successful in securing protection for its intellectual property rights and stopping other infringements of the Group's intellectual property rights. The Group may need to resort to litigation in the future to enforce its intellectual property rights. Any litigation could result in substantial costs and a diversion of resources. Any failure by the Group to protect and enforce its intellectual property rights could have a material adverse impact on the Group's business, operating profit and overall financial condition.

To the extent that the Group has applied for patents on any of its products or technology, it also relies on a portfolio of intellectual property rights, including contractual provisions and accreditations to protect its intellectual property. However, such intellectual property rights may be difficult to protect. Monitoring and defending the Group's intellectual property rights can entail significant expense, and the outcome is unpredictable. The Group may initiate claims or litigation against third parties for infringement of its

proprietary rights or to establish the validity of its proprietary rights. Any such litigation, whether or not it is ultimately resolved in the Group's favour, could result in significant expense and divert the efforts of the Group's technical and management personnel.

Any of the Group's intellectual property rights might be challenged by others or invalidated by administrative processes or litigation. Additionally, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark and trade secret protection may not be available to the Group in every country in which in the future it markets its products or services. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United Kingdom, and domestic and international mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly the Group may be unable to prevent third parties from infringing upon or misappropriating its intellectual property or otherwise gaining access to the Group's technology.

The Group's competitors may take actions which adversely affect its revenues, profits or financial condition

The Group operates within competitive markets. The Board believes that it has adopted a competitive business strategy. The Directors believe that this strategy ensures the Group maintains its competitive position in the markets in which it operates. However, the Group's business, results, operations and financial condition could be materially adversely affected by the actions of its competitors (including their marketing strategies and product and services development).

The Group's competitors could have greater financial resources or experience in particular sectors or markets where the Company intends to offer services. If the Group is not able to compete successfully against existing or future competitors, its competitive position, business, financial condition and results of operations may be adversely affected. There are a number of international companies that already provide a full range of smart metering services and have the ability to offer an end-to-end solution to their customers who could enter the UK market.

Gas supplier becoming a competitor to UKMA by establishing its own MAM business

A move by gas suppliers to establish MAM businesses of their own may reduce opportunity for asset accumulation to UKMA in the future.

Removal of meters owned and managed by UKMA

UKMA's contracted gas suppliers are required to use UKMA to install smart meters in place of meters which UKMA manage, and they pay a functional exchange fee for this service (or alternatively pay a termination charge should they instead elect to de-appoint UKMA as MAM and elect to have UKMA's meter removed). The new rental going forward provides UKMA with a return for the smart meter installed.

Where a consumer using a UKMA managed meter changes supplier and the new supplier is not one with which UKMA has a contract for MAM services on its standard terms, UKMA will not be contractually entitled to claim termination payments from the new supplier should that new supplier de-appoint UKMA as MAM. Should an unexpected event occur in the market (such as a government intervention, the entry into the market of a new gas supplier which gains a large market share, or a currently non-contracted supplier gaining a significantly increased market share) which triggers a large churn of meters from contracted to non-contracted suppliers who then elect to terminate UKMA's appointment as MAM and further elect to have UKMA's meter removed, the Group's business, financial condition and prospects may be materially adversely affected.

The Group's disaster recovery plans may not be sufficient and if they are not then there could be a material adverse effect on the Group's financial position

The Group depends on the performance, reliability and availability of its information technology and communications systems. Any damage to or failure of its systems could result in disruptions to the Group's operations and websites, which could reduce its revenues and profits, and damage its brands. The Group's systems are vulnerable to damage or interruption from power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm its systems, natural disasters, including floods and fires, volcanic ash and vandalism, terrorist attacks or other acts.

The Group's disaster recovery plans may not adequately address every potential event and its insurance policies may not cover any loss in full or in part (including losses resulting from business interruptions) or damage that it suffers fully or at all.

The Group relies on third parties, including data centres and bandwidth providers, to host and operate the Group's websites. Any failure or interruption in the services provided by these third parties could harm its operations and reputation. In addition, the Group may have little or no control over these third parties, which increases its vulnerability to service problems. Any disruptions in the services provided by these parties or any failure of these providers to handle current or higher visitor traffic or transaction volumes could significantly harm the Group's business. The Group may in the future experience disruptions or delays in these services. If these providers were to suffer financial or other difficulties, their services could be interrupted or discontinued and replacement providers may be uneconomical or unavailable. Any of these events could have a material adverse effect on the Group's business, operating profit and overall financial condition.

The Group's expansion may not be successful

The Group's operations are subject to certain risks including changes in government policies, changes in political and economic conditions, changes in regulatory environments, exposure to different legal, regulatory or fiscal standards, difficulties in staffing and managing operations, and potentially adverse tax consequences. There are no guarantees that the Group will be able to replicate its success in the gas industry in other areas such as water or electricity or that the Group will be able to successfully expand its operations internationally.

Levels of insurance carried by the Group

There can be no certainty that the Group's insurance cover is adequate to protect against every eventuality and the occurrence of an event for which the Group did not have adequate insurance cover could have a material adverse effect on the Group.

Political, economic, regulatory and legislative considerations

Adverse developments in the political, legal, economic and regulatory environment may materially and adversely affect the financial position and business prospects of the Group. Political and economic uncertainties include, but are not limited to expropriation, nationalisation, changes in interest rates, RPI, and changes in taxation and changes in law (for example, introduction of the Bribery Act 2010). Whilst the Group strives to continue to take effective measures such as prudent financial management and efficient operating procedures, there is no assurance that adverse political, economic, legal and regulatory factors will not materially and adversely affect the Group.

There may be a change in the regulatory environment which may materially adversely affect the Company's ability to implement successfully the strategy set out in this document. In particular, OFGEM has the power to influence competition, prices, and standards across the industry.

Risks relating to the Ordinary Shares

Suitability

Investment in the Ordinary Shares may not be suitable for all readers of this document. Readers are accordingly advised to consult a person authorised under FSMA who specialises in investments of this nature before making any investment decisions.

Investment in AIM-traded securities

Investment in shares traded on AIM involves a higher degree of risk, and such shares may be less liquid, than shares in companies which are listed on the Official List. The AIM Rules are less demanding than those rules that govern companies admitted to the Official List. It is emphasised that no application is being made for the admission of the Company's securities to the Official List. An investment in the Ordinary Shares may be difficult to realise. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Group. Investors may therefore realise less than, or lose all of, their investment.

Share price volatility and liquidity

The share price of quoted companies can be highly volatile and shareholdings can be illiquid. The price at which the Ordinary Shares are quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and others which may affect quoted companies generally. These factors could include the performance of the Group, large purchases or sales of the Ordinary Shares, currency fluctuations, legislative changes and general economic, political, regulatory or social conditions.

Stephen Timoney owns a significant percentage of the Ordinary Shares

Following Admission, they will continue to have control of the Group's management and affairs and may be in a position to exert influence on the Group and their interests may differ from other Shareholders.

Following Admission, Stephen Timoney will, beneficially, own approximately 30 per cent. of the Enlarged Issued Share Capital. This significant concentration of share ownership may adversely affect the market value of the Ordinary Shares because investors may believe that there are disadvantages in owning shares in companies with a controlling shareholder. Mr Timoney may alone or acting in concert with other shareholders have the ability to determine the outcome of matters requiring shareholder approval, including appointments to the Board and significant corporate transactions. In addition, the interests of this shareholder may be different from the interests of the Group or other shareholders as a whole. This control could also have the effect of delaying or preventing an acquisition or other change of control of the Group. Stephen Timoney has entered into the Relationship Agreement with the Company so that the Group is able to carry on its business and operations independently of Stephen Timoney and his Connected Persons and that all transactions and relationships between each of them and the Company are carried out at arm's length on a normal commercial basis.

Access to further capital

The Group may require additional funds to respond to business challenges, enhancing existing products and services and further developing its sales and marketing channels and capabilities. Accordingly, the Group may need to engage in equity or debt financings to secure additional funds. If the Company raises additional funds through further issues of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities could have rights, preferences and privileges superior to those of current shareholders. Any debt financing secured by the Group in the future could involve restrictive covenants relating to its capital raising activities and other financial and operational matters, which may make it more difficult for the Group to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, the Company may not be able to obtain additional financing on terms favourable to it, if at all. If the Group is unable to obtain adequate financing or financing on terms satisfactory to it, when the Group requires it, the Group's ability to continue to support its business growth and to respond to business challenges could be significantly limited or could affect its financial viability.

Future sale of Ordinary Shares

The Company is unable to predict when and if substantial numbers of Ordinary Shares will be sold in the open market following Admission. Any such sales, or the perception that such sales might occur, could result in a material adverse effect on the market price of the Ordinary Shares. The Group may require additional capital in the future which may not be available to it. If available, future financings to provide this capital may dilute shareholders' proportionate ownership in the Company. The Company may raise capital in the future through public or private equity financings or by raising debt securities convertible into Ordinary Shares, or rights to acquire these securities. Any such issues may exclude the pre-emption rights pertaining to the then outstanding shares. If the Company raises significant amounts of capital by these or other means, it could cause dilution for the Company's existing shareholders. Moreover, the further issue of Ordinary Shares could have a negative impact on the trading price and increase the volatility of the market price of the Ordinary Shares. The Company may also issue further Ordinary Shares, or create further options over Ordinary Shares, as part of its employee remuneration policy, which could in aggregate create a substantial dilution in the value of the Ordinary Shares and the proportion of the Company's share capital in which investors are interested.

No prior trading market for Ordinary Shares

Prior to the admission to trading on AIM, there was no public market for the Ordinary Shares. There can be no assurance that an active market for (and hence strong liquidity in the trading of) the Ordinary Shares will develop upon the Company's admission to trading on AIM, or if developed, that such market will be sustained.

Forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Company's or, as appropriate, the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's business). These statements include forward-looking statements both with respect to the Group and the sectors and industry in which the Group operates. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include, but are not limited to, those described in this Part II of this document which should be read in conjunction with the other cautionary statements that are included in this document. Any forward-looking statements in this document reflect the Company's or, as appropriate, the Directors' current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Company's operations, results of operations, growth strategy and liquidity.

These forward-looking statements speak only as at the date of this document. Subject to any applicable obligations, the Company undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise, unless required by the Prospectus Rules, AIM Rules and Disclosure Rules and Transparency Rules, as appropriate. All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on behalf of the Company are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

PART III
PATENT ATTORNEY'S REPORT

The following is the text of a report from Murgitroyd & Company Limited, the Company's Patent Attorneys:

**MURGITROYD
& COMPANY**
European Patent and Trade Mark Attorneys
FRANCE - GERMANY - FINLAND - ITALY
IRELAND - JAPAN - UK - USA

24 June 2011

The Directors
Smart Metering Systems plc
The Exchange
142 St Vincent Street
Glasgow
G2 5LA

The Directors
Cenkos Securities plc
6.7.8 Tokenhouse Yard
London
EC2R 7AS

Dear Sirs

Patent Attorneys' Report for UK Smart Metering Group

1. Introduction & Background

- 1.1. We have been instructed to prepare a report for inclusion in the admission document relating to the proposed admission ("Admission") to AIM, a market operated by the London Stock Exchange, of UK Smart Metering Group ("the Company"). As Murgitroyd & Company Limited, we act as intellectual property advisors and patent attorneys to what will, as of Admission, be the Company. The professional staff at Murgitroyd & Company Limited who act for the Company are European Patent Attorneys who have the necessary technical specialisms and are legally qualified to act for technology clients before the European Patent Office. We also have expertise in other areas of intellectual property such as trade marks, designs, copyright and confidential information.
- 1.2. This report contains a summary description of the invention for which the Company is seeking patent protection. This description has been simplified to assist the reader. The description should not therefore be relied upon as providing a complete or wholly accurate description of the invention, or of the patent protection sought in respect of the invention.
- 1.3. This report also contains summaries of investigations conducted on behalf of the Company. The summaries should not be relied upon as an exhaustive description of the investigations and analysis performed, nor are they as detailed as reports provided to the Company.



Murgitroyd & Company Limited, Registration No. 144082 (Scotland)
MURGITROYD is a Registered Trade Mark
Registered address: Scotland House, 165-169 Scotland Street, Glasgow G5 8PL
Murgitroyd & Company are regulated by IPREG
Terms of Business available on www.murgitroyd.com

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- 1.4. For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules.

2. An Introduction to Patents

2.1 *Background to the Patent System*

- 2.1.1. The patent system exists to reward and promote innovation. A monopoly right is granted to the patent owner for a fixed period of time. In return the patent owner publishes an enabling disclosure of his invention. An invention may be considered patentable if it is (i) new, (ii) inventive- i.e. non-obvious, (iii) industrially applicable, and (iv) is not otherwise barred from patentability by law.
- 2.1.2. A patent is territorial and it is advisable to seek patent protection in those territories where any product of the invention is to be made or sold or any process of the invention is to be used. Various international treaties and conventions exist which facilitate the acquisition of patent protection in many countries.
- 2.1.3. A patent does not confer any positive rights to use the invention on the proprietor and third parties' patents may be infringed by practising a patented invention. Additionally, practising a patented invention may be found contrary to other laws.

2.2 *Obtaining Patent Protection*

- 2.2.1. Typically the procedure for obtaining a patent is started by filing a national patent application, in a patent office of a territory that is party to the Paris Convention. Almost all major industrialised countries are party to the Paris Convention. This national application can provide a so-called "priority date" for the invention disclosed and the novelty and inventiveness of the invention is judged from the priority date. This priority date can be made effective for further patent applications filed in other Paris Convention territories provided that these future patent applications are filed within 12 months of the first priority application.
- 2.2.2. Although it is possible to file individual national or regional patent applications in those Paris Convention territories in which protection is sought, each claiming the right to priority from the priority application, it is common to file an international application in accordance with the Patent Co-operation Treaty (PCT). An international (PCT) application can provide a filing date in all territories which are party to the PCT and which are specified in the international (PCT) application. Most major, industrialised countries are party to the PCT. An international (PCT) application is effectively a bundle of separate territorial applications, each of which has the potential of becoming a national or regional patent application if the appropriate steps are taken. No patent can be granted directly from an international (PCT) application and the right to grant a patent is left to the national or regional laws as implemented by the national or regional patent offices.
- 2.2.3. In most countries, patent applications are searched and examined before a patent is granted. The purpose of the search is to identify documents which are relevant in assessing whether the invention claimed in the patent application is new or inventive; the purpose of the examination is for a patent office examiner to assess whether the claimed invention meets all the requirements of patentability. The examination process is an interactive procedure between the patent office examiner and patent applicant (or more usually his professional representatives) in which the patent applicant may have

to put forward arguments and evidence to rebut any objection raised by the patent office examiner. The patent applicant may have to amend the claims of his patent application during this procedure.

- 2.2.4. An international (PCT) application is searched and may also be examined during the international phase to give a preliminary, non-binding opinion on the patentability of the claimed invention, as assessed under the law to which the acting international preliminary examination authority is bound. In order to continue with the application in the specified territories, the international (PCT) application must be processed into the national or regional patent applications within at least about two and a half years from the first priority date. These separate national and regional patent applications are typically searched and examined further by the national and regional patent offices, which determine whether a patent should be granted in their territory.
- 2.2.5. At the date of this document, most Western European and some Eastern European countries (in total, 32 countries) are currently party to the European Patent Convention (EPC) which allows the European Patent Office (EPO) to search and examine a European regional patent application. The EPO is a party to the PCT so it is common to specify the EPO on a PCT application as a regional application.

3. Patent Rights Subject of this Report

- 3.1. The patent applications that are the subject of this report are only those related to the ADM development. Currently pending are applications in India, United States, Russian Federation, China and Europe (EPC) (“The Pending Applications”). These are all national/regional applications of International Patent Application PCT/GB2009/051327 (“The International Application”) filed on 7 October 2009. This claims the priority date of 9 October 2008 from UK application 0818449.1 (“The Priority Application”). The International Application was substantially unchanged from the Priority Application. Publication WO 2010041062A reproduces the International Application as filed. The Priority Application was allowed to lapse once the International Application was filed, having served to establish a priority date.
- 3.2. The Pending Applications are all in the name of UK Meter Assets Limited (formerly The UK Meter Exchange Limited). We understand UK Meter Assets Limited to be a subsidiary company of the Company. Rights in the applications can be transferred or licensed exclusively between group companies, according to a desired operating structure.
- 3.3. The claims of the International Application were amended during International Preliminary Examination. These are essentially the claims of The Pending Applications although minor amendments may have been made by the local associates in each case in accordance with local rules. Also, the China and Russia applications will have been/will be translated into the local language. In this report, the claims as filed during International Preliminary Examination are referred to as the “Pending Claims”. For Europe the claims have been further amended to reduce their claim number to avoid payment of excess claims fees and to delete a second independent apparatus claim (only one independent apparatus claim is normally allowed in Europe). This further amendment was made with a view to keeping the scope of the claimed invention substantially unchanged from that of the Pending Claims, at least in the widest sense, although some (lesser) fallback positions defined by dependent claims have been deleted. The pending European claims and the Pending Claims are open to public inspection via the European Patent Office online register (<https://register.epo.org>) and publication number EP2318809.

3.4. The Pending Claims seek to protect:

An integrated device [any infringing device must be integrated into a single unit] **for** [“for” is construed as “suitable for” throughout the claim] **the adaptation of fluid metering devices** [“fluid” covers liquids and gasses] **of a type which generates electrical pulses at a rate dependent on the volume of fluid used, comprising all of the following features:**

- a) **a universal attachment means, attachable to a wide range of meters**, [therefore a device with an attachment specific to a single type of meter would not infringe]
- b) **means for counting and storing the number of pulses generated during a particular time period**, [this covers any means suitable for counting and storing....]
- c) **communication means for communicating the stored pulse readings using standard mobile telephone networks** [this covers any means suitable for communicating the stored pulse readings over standard mobile phone networks regardless of any additional communications means they may also have]
- d) **a standard mobile operator SIM (Subscriber Identity Module) card** [an infringing device must have a SIM card],
- e) **an integral antenna** [an infringing device must have an integral antenna],
- f) **where all the components of said integrated device are integrated into a single housing, attachable to a meter by simply plugging thereto** [an infringing device must be in the form of a single unit that plugs to the meter],
- g) **the device being operable to function immediately upon attachment to the meter, without the need for programming or calibration** [an infringing device must start operating on attachment to the meter].

3.5. To **infringe** the patent, should it be granted in this form, any third party device must have all the features listed in the above paragraph, at least.

3.6. In addition, the applications seek to protect an integrated device for the adaptation of fluid metering devices having all the features described in paragraph 3.4 above, but additionally having **a pulse generating means for generating electrical pulses at a rate dependent on the volume of fluid used**. This variation is conceived for metering devices which are not themselves of the type “which generates electrical pulses at a rate dependent on the volume of fluid used”.

4. Patent Strength

4.1. On the basis of our investigations discussed below, it is our opinion that the Pending Claims claim patentable subject matter. We cannot, however, know the exact form of claims that will be granted by the relevant national and international patent authorities in connection with this application, or any patent applications derived therefrom. Our opinion is based upon an invention having all the features identified in paragraphs 3.4, and additionally the variation in paragraph 3.6, above, that is as claimed in the Pending Claims.

4.2. The Priority Application was filed with claims of a wider scope than that of the Pending Claims. A prior art search was carried out on these claims by the UK Intellectual Property Office (“The UK Search”). The International Application was filed with claims essentially the same as the Priority Application. A further prior art search report (“The International Search”) and accompanying Written Opinion was established by the European Patent Office in their capacity as International Searching Authority. The International Search. International Preliminary Examination was requested and amended claims filed (“The Pending Claims”), along with arguments in support of The Pending Claims. In response, an International Preliminary

Examination Report (“The IPER”) was issued by the European Patent Office in their capacity as International Preliminary Examination Authority. The International Search and Written Opinion are open to public inspection via the EPO Register, mentioned above, and so is the IPER. The documents identified in the UK Search and the International Search have been considered by us and are discussed further below Paragraphs 4.1.7 to 4.1.14).

- 4.3. The UK Search indicated that three documents were relevant to the novelty or inventiveness of some of the claims then pending. However nothing was cited against the claim relating to the subject matter of feature f), identified in paragraph 3.4 above. This feature now forms part of the independent claims (that is it is now an essential feature) of the Pending Claims.
- 4.4. The International Search Report and Written Opinion indicated that two further documents were relevant to the novelty or inventiveness of some of the claims then pending, although one of these was from the same family, and essentially identical to, one of the documents cited in the UK Search Report. Following the filing of arguments and amending the claims to the Pending Claims, the IPER indicated that all of the Pending Claims (other than the relatively unimportant claims 3 and 20, which were considered too imprecise to be examined) were novel and inventive and therefore essentially patentable in principle.
- 4.5. The International Preliminary Examination Report is not binding on any of the local patent offices in which the International Application is now pending (as separate national/regional applications). It is normally a reasonable indicator of likelihood of grant, although its usefulness in predicting likelihood of grant varies from jurisdiction to jurisdiction, particularly as different patentability criteria may apply, and the patent offices in different jurisdictions attach varying levels of significance to it.
- 4.6. In the specific example of the pending European Patent Application, a positive IPER such as that received, is usually a strong indicator that a patent will be granted by the European Patent Office with essentially the same scope as that indicated as patentable in the IPER. The International Preliminary Examination was performed by the European Patent Office, largely following the criteria for grant of European Patents. Where it is possible, the European Application is usually assigned to the same examiner who prepared the IPER. It should be appreciated, however, that grant still cannot be assumed, and the examiner may be substituted for another with a different view, is at liberty to change their position, or may become aware of new prior art either through undertaking further searches on their own volition or through submission by third parties.
- 4.7. Murgitroyd & Company has also considered the prior art documents cited in the UK Search and the International Search. Four documents were cited in the UK search and two documents in the International Search. The following opinion is based solely on these documents listed. No further validity searches have been carried out. This opinion may require to be revised if additional prior art documents are identified.
- 4.8. It is our opinion that none of the relevant documents as identified in the UK search or the International search unambiguously discloses a device that includes all of the features required by the presently claimed device. Accordingly, it is our opinion that the claimed device of the present application (according to the Pending Claims) is novel over this prior art.
- 4.9. In order for a claimed invention to be patentable, not only does the invention have to be novel but it must also be considered to involve an inventive step (i.e. not be considered to be obvious in light of the prior art). It is our opinion, for the reasons explained below, that none of the prior art documents considered render the claimed device of the present application (according to the Pending claims) obvious or devoid of inventive step.

- 4.10. EP0580520A discloses a device for a very specific type of meter. It is notable that this is possibly the only document considered in this report that describes a device that is actually for the adaption of an existing meter that has already been fitted. Fitting the device requires removal of a cover and attachment of a circular counter that is not integrated with the main electronics, being connected instead by wire. Therefore it is not a device where all components are integrated into a single housing or one attachable to a meter by simply plugging thereto, or one attachable to a wide range of meters. There is insufficient description of the electronics to determine whether it is “plug and play” in the way the present device is, or whether any programming or calibration is needed. Therefore this feature is not disclosed. There is only a vague mention of remote metering, which seems to be only by wire to a more convenient on-premises location. Certainly there is no mention of communication via a conventional phone network. Consequently, the prior device described here does not have a number of the claimed features of the Pending Claims and therefore we consider the Pending Claims to be novel over it. Furthermore, it describes a device far removed from a truly universal device (suitable for a wide range of meters), that can be simply installed by a customer with no technical knowhow, which enables true remote sending of information to an off-site location such as that of a supplier. Either the issue of customer attachment has not been considered, or has been solved in an inferior way to the present invention. Therefore we consider the present invention as defined in the Pending Claims to have an inventive step in light of this document, both when considered alone or in combination with any of the other documents considered in this section of the report.
- 4.11. GB2287340 discloses a flow measuring and leak detection system for a pipe, not a device for adapting meters. It requires its own flow sensor, as it is not for adapting an already present meter. It has no communication means other than an alarm. The main response to a detected leak is to isolate supply. It does not seem to be simple enough to install by someone without technical skills. This was cited as background interest only in the UK Search report, a categorisation that we would agree with.
- 4.12. DE 19725247 describes what is essentially a metering device in itself (as opposed to an adaptor for a metering device) having housed within it some form of radio broadcasting means. It does not disclose a device having a SIM card, an integral antenna, a communications means arranged to communicate using standard mobile telephone networks, nor is the device a single integrated device attachable to a meter by simply plugging thereto, said device being operable to function immediately upon attachment to the meter without the need for programming or calibration. This metering device is meant to be placed beside a hermetically sealed fluid gauge chamber so that the chamber’s Impeller wheel causes the drive shaft of the metering device to rotate via a magnetic field (column 5, lines 61 to 67). This is therefore a very specific and complex combined metering and transmission device, and has little to do with the present invention or its aims.
- 4.13. WO2007/080310, FR2896069 and FR2896067 have been considered together. WO2007/080310 is part of the same family and has identical text to FR2896069. FR2896067 discloses a device for remote metering that is essentially similar to that of WO2007/080310 and FR2896069, but used in a slightly different context, with some additional functionality. It is first of all debatable whether these documents describe a device for adaption of an existing meter at all. The devices are described in each document as being a meter having a transducer “placed against the meter...”. How this is done, and when they are integrated together is unclear. The texts of all these documents refer to making it easier for a “technician” to “fit the meter”, presumably in its entirety. Therefore it may be that the data acquisition and sending means and the meter itself are designed to be pre-assembled. In any case, very little detail of the acquisition means itself, or how it operates is disclosed in any of these documents. In the absence of such detail, it is not legitimate to assume that the acquisition means is comparable to the means for counting and storing the number of pulses of the present invention. It seems reasonable to conclude that, as these prior art devices are designed for fitting together with the meter, by a technician, the meters

being non-residential meters, it would not be considered a problem that the device needs programming or calibration, this simply being the norm. Once again, just because these documents are silent on calibration matters or any real details of the acquisition device does not mean it can be assumed that the meter does not need any calibration. Also of note is that the disclosed aims of these documents are very different to those of the present invention.

- 4.14. Consequently we consider the Pending Claims to be novel and inventive over these documents.

5. Limitations of the Opinion in Section 4.1

- 5.1. The patent searches have been conducted by external Patent Offices and not by Murgitroyd and Company who cannot be responsible for their content. Due to the nature of patent validity, whereby any publication anywhere in the world prior to the effective date of the rights at issue may potentially be prejudicial to validity, any search conducted cannot ever be completely exhaustive. In addition, the accuracy of any search relies upon the completeness and correctness of the databases used and omission of documents from the database or their inaccurate transcription or classification into the database cannot be ascertained.
- 5.2. Patent applications are normally only published 18 months after the priority date. Accordingly, the searching authorities would not have found any patent applications filed within the last 18-month period in any search. Additionally, there will be some delay for the input of published documents onto the searchable database.
- 5.3. The opinion refers to a pending application (as opposed to a granted patent) and the opinion is based on the claims as identified above. If the claims are further amended (for example during prosecution) then our opinion may require to be revised.
- 5.4. Our analysis of: – (i) EP0580520, a French language document, has been carried out solely on the basis of a machine translation provided by *Espacenet*, the European Patent Office's on-line search resource, the English language claims from the granted specification and the English language abstracts produced by EPODOC and WPI Thomson which were provided to us with the Search Report; (ii) our analysis of FR2896069A and WO2007/080310A1, French language documents of *prima facie* identical texts, has been carried out solely on the basis of a human generated translation prepared by Murgitroyd and Company on behalf of the applicant and an equivalent family member: -US national phase publication, US2009224937, derived from WO2007/080310A1. (iii) Our analysis of FR2896067A, a French language document, has been carried out solely on the basis of US family member 2010219982. (iv) Our analysis of DE 19725247, a German language document, has been carried out solely on the basis of a human generated translation prepared by Murgitroyd and Company on behalf of the applicant.
- 5.5. The opinion expressed in this report is based on our experience of claim interpretation by the UK Intellectual Property Office, the UK courts, and by the European Patent Office. It must be understood that there may be differences in claim interpretation between patent authorities tasked with examining and granting any of the pending patent applications. Therefore, although member countries of the World Trade Organisation share common principles of patentability, it should be noted that the opinions provided in this report are restricted to advising on the position in Europe. If a view on the patentability of any of the Pending Applications outwith Europe is required, this should be obtained from a patent attorney qualified in the relevant non-European country.
- 5.6. It should be understood that the opinions expressed in this report are based on our professional experience and the information that is to hand; our opinion should not be misconstrued as certain fact.

- 5.7. The Pending Applications have the potential to remain in force for 20 years from their filing date, which is the filing date of the International Application, 9 October 2010. Thus patents ultimately granted will remain in force until 8 October 2030, subject to the timely payment of annual renewal fees, which in most territories are payable annually.
- 5.8. The grant of a patent application is not required for the Company to operate in any given territory but would provide an advantage of exclusivity. Accordingly, if for some unforeseen reason any of the patent applications that are the subject of this report were not to be granted, the Company would not be prohibited from operating their process on that basis, although there would be a consequent loss of exclusivity.

6. Third Party Patent Rights

- 6.1. The Company is aware of the need to avoid unauthorised use of third party intellectual property. In order to minimise the risk of doing so, we have carried out a search for third party patent rights that may inhibit the proposed activities of the Company. Our analysis of third party patent rights is based solely on the relevant documents identified in the search, and on the description of the device in the Pending Applications with further description of the Company's proposed activities as agreed with the Company. The search has been performed to identify third party patent rights in the UK only (that is UK, European and PCT patent applications and patents).
- 6.2. In performing these searches, the searcher was instructed to concentrate on the core aspects of the invention. In this regard the searcher considered "An integrated device which may be utilised with a fluid meter; wherein the device comprises means for attaching to an existing meter, generation of electrical pulses dependent on the volume of fluid used, counting and storing said pulses, and communicating readings remotely". Consequently, this opinion has not considered other aspects of the Company's planned activity, for example how the data is processed or accessed after it has been sent by such a device.
- 6.3. The search results were classified into four groups (a) to (d). The first group (a) lists the documents that the searcher considered the most relevant. The other three groups contain further documents identified by the searcher as less relevant, and are categorised by particular aspects of the invention.
- 6.4. We have reviewed at least the first published or, where in force, granted claim of all the documents in group (a). These comments are in *Italics* and endeavour to identify at least one feature in each document's main claim which we believe not to be present in The Company's proposed device or overall system. These comments have been reviewed by the Company, who has confirmed that the features identified will not be part of the device.
- 6.5. We also reviewed groups (b) to (d). In these groups, features which we understand will not be present in the Company's proposed device have been highlighted, and again the Company has confirmed that the identified features will not be part of the device. In performing the review of these documents, where any of the listed documents are clearly very different and far removed from the proposed device, we formed our opinion solely on the abstract. Where there had been any doubt, we looked at the appropriate claim.
- 6.6. It is our opinion that the Company's proposed core activity within the UK, in relation to the device that is subject of the Pending Applications, would not infringe the claims of any of the identified granted patents which are in force in the UK.
- 6.7. There are four pending patent applications which have current claim scope that might possibly be infringed by the Company's proposed activities within the UK, depending on how particular claim features are interpreted. In each case, we have considered the chances of the application being granted

with a scope which may inhibit the Company's proposed activities. We cannot know the exact form of claims that will be granted by the relevant national and regional patent authorities in connection with any of these patent applications. These documents are three in group (a) and one in group (b).

- 6.8. In each case these documents have been identified as a low risk. The first has been alleged to lack novelty by the EPO in its PCT written opinion (an allegation that we concur with), and is likely to require amendment. Any such amendment is likely to include what we interpret to be the core subject matter of that application, which relates to features not relevant to the Company's proposed device. The claims of the second as filed, although wide in scope, are limited to a device suitable for controlling the gas supply. As we understand it, the Company's device will not control supply. The third has a very broad first claim. Examination has not yet begun, but the search report indicates that the international examiner (the USPTO) considers the widest claims at least to lack novelty. Following our own study, we have also concluded that the claims will require amendment to obtain grant. The US counterpart of this application is further along the examination process and the claims presently on file there are much narrower in scope and would not pose a problem if a similar approach was followed in Europe. There is no guarantee that such an approach will be followed in Europe, however the core data sending methodology is quite different to that employed by the Company's proposed device. The fourth has a potentially wide claim, depending on how one word is construed. However, following our study, we believe that any interpretation of this claim which poses a potential problem to the company's activities is anticipated by earlier publications known to us.
- 6.9. We have advised that the Company should monitor the progress of these applications and obtain advice once the final form of the claims is apparent.

7. Limitations of the Opinion in Section 5.1

- 7.1. Patents and patent applications are classified in a comprehensive system that can be searched as a reference source. The search was restricted to published patent applications and patents classified under selected, broad International Patent Classification headings (for a description of the international patent classification headings please see :- <http://www.wipo.int/classifications/en>). A keyword search was performed, in addition.
- 7.2. Where possible, using official national and international online patents registers, status information was derived for each of the patent applications and patents. The initial results included a number of patents and patent applications that were identified from the status information as lapsed. These were not considered further when preparing the report.
- 7.3. The search was conducted using commercial searchable patent databases and official national and international online patents registers. The accuracy of the search, therefore, relies upon the completeness and correctness of these databases and registers and over which Murgitroyd & Company has no control. In particular omission of documents or of details of documents from the database and registers, or their inaccurate transcription into the database and registers, cannot be ascertained.
- 7.4. Patent applications are normally only published 18 months after the priority date. Accordingly, it will not have been possible to find any patent applications filed within the last 18-month period in the search. Additionally, there will be some delay for the input of published documents onto the searchable database.
- 7.5. The opinion is based solely on the patent families identified in the above search.
- 7.6. As noted above, patents and patent applications that were identified from the status information as lapsed were not considered further when preparing the report. However, it should be noted that many national laws provide for the possibility of revival of lapsed patents or patent applications.

Such revival is only normally permitted within a specified period from lapse, and only if the circumstances are such that it can be shown that the loss of patent rights was unintentional. It should also be noted that many national laws, including the UK, provide a degree of protection against infringement for third parties who commence commercial activity during a period in which a patent or application has lapsed in the event that the rights are subsequently revived.

- 7.7. It should be understood that the opinions expressed in this report are based on our professional experience and on the information that is to hand; our opinion should not be misconstrued as certain fact.
- 7.8. It should be noted that the Company's activities would not necessarily be halted if a patent were to be identified that is infringed by their activities. If such a patent were identified, then we would advise that an analysis of the validity of the patent be undertaken. Based on such an analysis, the Company may have the option to institute proceedings to revoke any portions of the patent that are considered to be invalid. Alternatively, or in addition, the Company could identify the key elements of the claimed invention, and where possible avoid infringement by altering their activities in order to ensure that they do not include such key elements. The Company could also avoid infringement of any third party rights by purchasing those rights, or by obtaining a licence in the territory concerned.

8. Conclusion

- 8.1. We are unaware of any reason why the Pending Applications that are the subject of this report, should not be granted. We are also unaware of any granted patent rights that would prejudice the Company's proposed core activity, in relation to the device that is subject of the Pending Applications, as we understand it.

Yours faithfully

/John Gray/

John Gray
Director, Patents
Murgitroyd & Company

PART IV

HISTORICAL FINANCIAL INFORMATION ON THE SMS GROUP

Section A: Accountants' Report on the Historical Financial Information on the SMS Group

The following is the full text of a report on the SMS Group from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of SMS.



BAKER TILLY

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Glasgow G2 3EH
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The Directors
Smart Metering Systems plc
Level 5/6
142 St Vincent Street
Glasgow G2 5LA

24 June 2011

Dear Sirs

SMART METERING SYSTEMS PLC ("the Company")

We report on the financial information set out in Section B of this Part IV. This financial information has been prepared for inclusion in the admission document dated 24 June 2011 ("Admission Document") of the Company on the basis of the accounting policies set out in Section B on pages 58 to 62. This report is required by paragraph 20.1 of Annex I of Appendix 3.1.1 of the Prospectus Rules as if they had been applied by part (a) of Schedule Two to the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph 20.1 of Annex I of Appendix 3.1.1 of the Prospectus Rules as if they had been applied by part (a) of Schedule Two to the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law, we do not accept or assume responsibility will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 20.1 of Annex I of Appendix 3.1.1 of the Prospectus Rules as if it had been applied by part (a) of Schedule Two to the AIM Rules, consenting to its inclusion in the Admission Document.

Responsibilities

As described in Section B, the Directors of the Company are responsible for preparing the financial information on the basis of preparation set out on page 58 and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant

estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at the dates stated and of its consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows for the periods then ended in accordance with the basis of preparation set out on page 58 and in accordance with International Financial Reporting Standards as adopted by the European Union as described on page 58.

Declaration

For the purposes of part (a) of Schedule Two to the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with item 1.2 of Annex I and item 1.2 of Annex III of Appendix 3.1.1 of the Prospectus Rules as if it had been applied by part (a) of Schedule Two to the AIM Rules.

Yours faithfully

Baker Tilly Corporate Finance LLP

Regulated by the Institute of Chartered Accountants in England and Wales

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 6th Floor, 25 Farringdon Street, London EC4A 4AB

Section B: Historical Consolidated Financial Information on the SMS Group for the 3 years ended 31 December 2010

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Notes</i>	<i>2010</i> <i>£'000</i>	<i>2009</i> <i>£'000</i>	<i>2008</i> <i>£'000</i>
REVENUE	1	12,368	9,814	9,098
Cost of sales	2	(6,681)	(5,523)	(6,362)
Gross profit		5,687	4,291	2,736
Administrative expenses	2	(4,314)	(2,500)	(2,859)
Other operating income		—	8	2
PROFIT/(LOSS) FROM OPERATIONS	2	1,373	1,799	(121)
Attributable to:				
Operating profit before exceptional items		2,237	1,799	679
Exceptional items	2	(864)	—	(800)
Finance costs	5	(321)	(201)	(67)
Finance income	5	—	1	161
PROFIT/(LOSS) BEFORE TAXATION		1,052	1,599	(27)
Taxation	6	(367)	(428)	(113)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		685	1,171	(140)
Other comprehensive income		—	—	—
TOTAL COMPREHENSIVE INCOME		685	1,171	(140)

The profit/(loss) from operations arises from the Group's continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	<i>Notes</i>	<i>2010</i> <i>£'000</i>	<i>2009</i> <i>£'000</i>	<i>2008</i> <i>£'000</i>
ASSETS				
Non-current				
Intangible assets	8	1,731	1,863	8
Property, plant and equipment	9	12,951	8,303	4,501
Financial asset investments	10	—	20	20
		<u>14,682</u>	<u>10,186</u>	<u>4,529</u>
Current Assets				
Inventories	11	—	—	96
Trade and other receivables	12	1,219	1,958	4,939
Financial asset investments	10	180	517	517
Cash and cash equivalents	13	1,835	592	798
Other current financial assets	18	99	—	—
		<u>3,333</u>	<u>3,067</u>	<u>6,350</u>
TOTAL ASSETS		18,015	13,253	10,879
LIABILITIES				
Current liabilities				
Trade and other payables	14	6,090	5,838	5,562
Current tax liabilities		—	—	38
Bank loans and overdrafts	15	1,003	49	468
Obligations under hire purchase agreements	17	7	510	420
Other current financial liabilities	18	171	—	—
		<u>7,271</u>	<u>6,397</u>	<u>6,488</u>
Non-current liabilities				
Bank loans	15	8,253	427	469
Obligations under hire purchase agreements	17	—	3,974	3,619
Deferred tax liabilities	20	964	559	132
Other creditors	16	—	554	—
		<u>9,217</u>	<u>5,514</u>	<u>4,220</u>
TOTAL LIABILITIES		16,488	11,911	10,708
NET ASSETS		1,527	1,342	171
EQUITY				
Share capital	22	—	—	—
Other reserve	23	1	1	1
Retained earnings		<u>1,526</u>	<u>1,341</u>	<u>170</u>
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		1,527	1,342	171

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Share capital £'000</i>	<i>Other reserve (note 23) £'000</i>	<i>Retained earnings £'000</i>	<i>Total £'000</i>
Attributable to the owners of the parent company:				
As at 1 January 2008	—	1	310	311
Loss for the year	—	—	(140)	(140)
As at 31 December 2008	—	1	170	171
Profit for the year	—	—	1,171	1,171
As at 31 December 2009	—	1	1,341	1,342
Profit for the year	—	—	685	685
Transactions with owners in their capacity as owners:				
Dividends (Note 7)	—	—	(500)	(500)
As at 31 December 2010	—	1	1,526	1,527

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010 £'000	2009 £'000	2008 £'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation	1,052	1,599	(27)
Finance costs	321	201	67
Finance income	—	(1)	(161)
Depreciation	598	366	121
Amortisation	249	—	—
Investment revaluation	337	—	—
(Increase)/decrease in inventories	—	96	(95)
Decrease/(increase) in trade and other receivables	775	2,996	(2,877)
Increase/(decrease) in trade and other payables	253	276	2,304
Loss on disposal of investment	5	—	—
Gain on sale of fixed assets	—	—	(33)
CASH USED IN OPERATIONS	3,590	5,533	(701)
Taxation	1	(53)	(87)
NET CASH USED IN OPERATIONS	3,591	5,480	(788)
INVESTING ACTIVITIES			
Payments to acquire property, plant and equipment	(5,246)	(4,168)	(4,158)
Disposal of fixed assets investment	15	—	—
Payment to acquire fixed asset investment	—	—	(20)
Payments to acquire intangible assets	(118)	(1,855)	(8)
Finance income	—	1	161
NET CASH USED IN INVESTING ACTIVITIES	(5,349)	(6,022)	(4,025)
FINANCING ACTIVITIES			
Net proceeds of new borrowings less capital repaid	4,304	406	3,947
Net (outflow) from other long term creditors	(554)	554	—
Finance costs	(250)	(201)	(67)
Dividend paid	(500)	—	—
NET CASH GENERATED FROM FINANCING ACTIVITIES	3,000	759	3,880
Net increase/(decrease) in cash and cash equivalents	1,242	217	(933)
Cash and cash equivalents at the beginning of the financial year	582	365	1,298
Cash and cash equivalents at the end of the financial year (Note 13)	<u>1,824</u>	<u>582</u>	<u>365</u>

ACCOUNTING POLICIES

The Company is incorporated and domiciled in the UK. The Group's activities consist of the rental and management of gas meters and that of laying infrastructure pipes for industrial and commercial premises and the provision of specialist technical advice on the use and management of energy for industrial and commercial users.

Basis of Accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU ("IFRS"), IFRIC interpretations and the requirements of the Companies Act applicable to Companies reporting under IFRS as extant at 31 December 2010.

The principal accounting policies are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the company and all group undertakings being UK Gas Connection Limited, UK Meter Assets Limited and UK Data Management Limited. These are adjusted, where appropriate, to conform to group accounting policies and are prepared to the same accounting reference date. The company was incorporated on 27 October 2009. The Group was formed on 24 December 2009 through the acquisition of the entire share capital of UK Gas Connection Limited and UK Meter Assets Limited (the only subsidiaries in existence at that time).

Whilst the group is newly formed, the ultimate ownership of all companies has remained unchanged and, as such, the financial statements have been prepared based on a reconstruction under common control, reflecting the group results for the current and prior years as though the group structure has always existed.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and VAT.

Revenue is recognised when the significant rewards and risk of ownership have been passed to the buyer. The risk and rewards of ownership transfer when the company fulfils its contractual obligations to customers by supplying goods and services, or when they have the right to receive the income. Where revenue is recognised due to the right to receive the income and the company has not supplied the goods or service an accrual is incorporated for the estimate of providing such.

Rental income is accounted for on a straight line basis over the term.

Segment Reporting

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Operating segments are reported in a manner consistent with the reports made to the chief operating decision maker which are consistent with the reported results.

The Company considers that the role of chief operating decision maker is performed by the Board of Directors.

Financial Assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

ACCOUNTING POLICIES continued

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as interest rate swaps to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The Group has not designated any derivatives for hedge accounting.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

ACCOUNTING POLICIES continued

Exceptional Items

The Group presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in that year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Research and Development

Expenditure on pure and applied research activities is recognised in the income statement as an expense as incurred.

Expenditure on product development activities is capitalised if the product or process is technically and commercially feasible and the group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Amortisation – 13 per cent. on cost straight line

Intangible Assets

Intangible assets acquired separately from third parties are recognised as assets and measured at cost.

Following initial recognition, intangible assets are measured at cost at the date of acquisition less any amortisation and any impairment losses. Amortisation costs are included within the net operating expenses disclosed in the statement of comprehensive income.

Intangible assets are amortised over their useful lives as follows:

Software – 8 years Straight line

Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis. The Company does not have any intangible assets with indefinite lives.

Property, Plant and Equipment

Property plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively.

All other repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Short Leasehold 20% on cost
- Plant and equipment 5% on cost
- Fixtures and fittings 15% on cost
- Equipment 33% on cost

Land is not depreciated.

ACCOUNTING POLICIES continued

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

All fixed assets are initially recorded at cost.

Impairment of Assets

Property, plant and equipment and intangible assets 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 purposes of assessing impairment assets that do not individually generate cash flows are assessed as part of the cash generating unit to which they belong. Cash generating units are the lowest levels for which there are cash flows that are largely independent of the cash flows from other assets or groups of assets.

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above, net of outstanding bank overdrafts.

Hire Purchase Agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the notional interest is charged to the statement of comprehensive income in proportion to the remaining balance outstanding.

Leased Assets and Obligations

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

All other leases are operating leases and the annual rentals are charged to the statement of comprehensive income on a straight line basis over the lease term.

Pension Costs

The group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the statement of comprehensive income.

ACCOUNTING POLICIES continued

Taxation

Tax currently payable is based on the taxable profit for the year. Taxable profit differs from accounting profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The deferred tax balance is calculated based on tax rates that have been enacted or substantively enacted by the reporting date.

Adoption of the International Accounting Standards

The following standards have been issued by the IASB. They become effective after the current year and have not been early-adopted by the Company.

<i>Standard</i>		<i>Issued</i>	<i>Effective date: Periods commencing on or after</i>
IFRS3	Business combinations – Comprehensive Revision on applying the acquisition method	10 Jan 08	1 Jul 10
IAS 27	Consolidated and Separate Financial Statements – Amendments arising from IFRS 3	10 Jan 08	1 Jul 10
IAS 28	Investments in Associates – Consequential amendments arising from IFRS 3	10 Jan 08	1 Jul 09
IAS 31	Investments in Joint Ventures – Consequential amendments arising from IFRS 3	10 Jan 08	1 Jul 09
IAS 32	Financial Instruments: Presentation – Amendment; Classification of Rights Issues	8 Oct 09	1 Feb 10
IAS 39	Financial instruments: Recognition and Measurement – Amendment;	31 Jul 08	1 Jul 09

The Directors do not anticipate any of the above standards would have a significant impact on the historical financial information.

NOTES TO THE FINANCIAL STATEMENTS

1 Segmental Reporting

For management purposes, the Group is organised into two core divisions, management of assets and installation of meters, which form the basis of the Group's reportable operating segments. Operating segments within those divisions are combined on the basis of their similar long term economic characteristics and similar nature of their products and services, as follows;

The management of assets comprises regulated management of gas meters within the UK.

The installation of meters comprises installation of domestic and industrial & commercial gas meters throughout the UK.

Management monitors the operating results of its divisions separately for the purpose of making decisions about resource allocation and performance assessment. The operating segments disclosed in the financial statements are the same as reported to the Board. Segment performance is evaluated based on gross profit or loss excluding operating costs not reported by segment, depreciation, amortisation of intangible assets and exceptional items.

The following tables present information regarding the Group's reportable segments for the year ended 31 December 2010, 31 December 2009 and the year ended 31 December 2008.

<i>31 December 2010</i>	<i>Asset management £'000</i>	<i>Asset installation £'000</i>	<i>Total operations £'000</i>
Segment revenue	4,372	7,996	12,368
Operating costs	(1,850)	(4,831)	(6,681)
Segment profit – group gross profit	2,522	3,165	5,687
Items not reported by segment:			
Other operating costs			(2,603)
Depreciation			(598)
Amortisation			(249)
Exceptional items			(864)
Group operating profit after amortisation and exceptional items			1,373
Net finance costs			(321)
Profit before tax			1,052
Tax expense			(367)
Profit for year			685

1 Segmental Reporting continued

<i>31 December 2009</i>	<i>Asset management £'000</i>	<i>Asset installation £'000</i>	<i>Total operations £'000</i>
Segment revenue	3,218	6,596	9,814
Cost of sales	(1,419)	(4,104)	(5,523)
Segment profit – group gross profit	<u>1,799</u>	<u>2,492</u>	<u>4,291</u>
Items not reported by segment:			
Other operating costs			(2,126)
Depreciation			(366)
Amortisation			—
Exceptional items			—
Group operating profit after amortisation and exceptional items			<u>1,799</u>
Net finance costs			(200)
Profit before tax			<u>1,599</u>
Tax expense			(428)
Profit for year			<u><u>1,171</u></u>
<i>31 December 2008</i>	<i>Asset management £'000</i>	<i>Asset installation £'000</i>	<i>Total operations £'000</i>
Segment revenue	2,467	6,631	9,098
Cost of sales	(1,393)	(4,969)	(6,362)
Segment profit – group gross profit	<u>1,074</u>	<u>1,662</u>	<u>2,736</u>
Items not reported by segment:			
Other operating costs			(1,936)
Depreciation			(121)
Amortisation			—
Exceptional items			(800)
Group operating (loss) after amortisation and exceptional items			<u>(121)</u>
Net finance costs			94
Loss before tax			<u>(27)</u>
Tax expense			(113)
Loss for year			<u><u>(140)</u></u>

All revenues and operations are based and generated in the UK.

The Group has one major customer that generated turnover within each segment as listed below:

	<i>2010 £'000</i>	<i>2009 £'000</i>	<i>2008 £'000</i>
Customer 1 – Asset Management	2,893	2,510	1,160
Customer 1 – Asset Installation	1,987	842	646
	<u>4,880</u>	<u>3,352</u>	<u>1,806</u>

No segmentation is presented for the majority of Group assets and liabilities as these are managed centrally, independently of operating segments.

Those assets and liabilities that are managed and reported on a segmental basis are detailed below.

1 Segmental Reporting continued

Segment assets and liabilities

<i>31 December 2010</i>	<i>Asset management £'000</i>	<i>Asset installation £'000</i>	<i>Total operations £'000</i>
Assets reported by segment			
Intangible assets	1,731	—	1,731
Plant and machinery	12,875	—	12,875
Inventories	—	—	—
	<u>14,606</u>	<u>—</u>	<u>14,606</u>
Assets not reported by segment			<u>3,409</u>
Total assets			<u>18,015</u>
Liabilities reported by segment			
Obligations under hire purchase agreements	7	—	7
	<u>7</u>	<u>—</u>	<u>7</u>
Liabilities not reported by segment			<u>16,481</u>
Total liabilities			<u>16,488</u>
<i>31 December 2009</i>	<i>Asset management £'000</i>	<i>Asset installation £'000</i>	<i>Total operations £'000</i>
Assets reported by segment			
Intangible assets	1,863	—	1,863
Plant and machinery	8,235	—	8,235
Inventories	—	—	—
	<u>10,098</u>	<u>—</u>	<u>10,098</u>
Assets not reported by segment			<u>3,155</u>
Total assets			<u>13,253</u>
Liabilities reported by segment			
Obligations under hire purchase agreements	4,483	—	4,483
	<u>4,483</u>	<u>—</u>	<u>4,483</u>
Liabilities not reported by segment			<u>7,428</u>
Total liabilities			<u>11,911</u>

1 Segmental Reporting continued

31 December 2008	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	8	—	8
Plant and machinery	4,423	—	4,423
Inventories	96	—	96
	<u>4,527</u>	<u>—</u>	<u>4,527</u>
Assets not reported by segment			<u>6,352</u>
Total assets			<u><u>10,879</u></u>
Liabilities reported by segment			
Obligations under hire purchase agreements	4,039	—	4,039
	<u>4,039</u>	<u>—</u>	<u>4,039</u>
Liabilities not reported by segment			<u>6,669</u>
Total liabilities			<u><u>10,708</u></u>

2 Income Statement by Nature and Items of Expenditure included in the Consolidated Income Statement

	Note	2010 £'000	2009 £'000	2008 £'000
Revenue		12,368	9,814	9,098
Direct rental costs		(1,655)	(1,257)	(1,725)
Direct subcontractor costs		(3,489)	(3,040)	(3,586)
Other direct sales costs and systems rental		(1,538)	(1,226)	(1,052)
Staff costs		(1,676)	(1,185)	(942)
Depreciation				
– Owned assets		(576)	(119)	(58)
– Leased assets		(23)	(248)	(64)
Amortisation		(249)	—	—
Other operating income		—	8	2
Auditors remuneration – as auditors		(29)	(29)	(23)
Exceptional costs		(864)	—	(800)
Operating lease costs				
– Plant and equipment		(5)	(4)	(4)
Loss on disposal of fixed assets		(5)	—	—
Other operating charge		(886)	(915)	(967)
		<u>1,373</u>	<u>1,799</u>	<u>(121)</u>
Operating profit/(loss)		<u>1,373</u>	<u>1,799</u>	<u>(121)</u>
Finance costs		(321)	(201)	(67)
Finance income		—	1	161
		<u>1,052</u>	<u>1,599</u>	<u>(27)</u>
Profit/(loss) before taxation		<u><u>1,052</u></u>	<u><u>1,599</u></u>	<u><u>(27)</u></u>

Included in exceptional administrative expenses in the year ended 31 December 2010 is £527,000 that relates to bank charges and legal and professional fees in relation to increasing the group's bank facilities in the current year to support its ongoing expansion.

The remaining £337,000 of exceptional administrative expenses relates to a write down on current asset investments after the land held by the group was revalued at £180,000.

Exceptional expenses in 2008 comprise one off contributions to an employee benefit trust.

Auditors remuneration amounts in total to £47,000 (2009: £47,000, 2008: £23,000).

3 Particulars of Employees

The average number of staff employed by the group, including executive directors', during the financial year was:

	2010 No	2009 No	2008 No
Number of administrative staff	4	4	3
Number of operational staff	28	16	11
Number of Directors	3	3	3
	<u>35</u>	<u>23</u>	<u>17</u>

The aggregate payroll costs, including directors, of the above were:

	2010 £'000	2009 £'000	2008 £'000
Wages and salaries	1,468	1,054	1,644
Social security costs	172	120	93
Staff pension costs	23	7	3
Director pension costs	13	4	2
	<u>1,676</u>	<u>1,185</u>	<u>1,742</u>

The amounts above include all executive and non-executive directors of the Group.

4 Directors' Emoluments

	2010 £'000	2009 £'000	2008 £'000
The directors' aggregate remuneration in respect of qualifying services were:			
Emoluments receivable	614	470	1,125
Value of group pension contributions to money purchase schemes	6	4	2
Other pension	7	—	4
	<u>627</u>	<u>474</u>	<u>1,131</u>

Emoluments of highest paid director

	2010 £'000	2009 £'000	2008 £'000
Total emoluments	317	219	764
Pension contributions	4	—	—

The number of directors who accrued benefits under company pension schemes was as follows:

	2010 No	2009 No	2008 No
Money purchase schemes	<u>1</u>	<u>1</u>	<u>1</u>

5 Finance Costs and Finance Income

	2010 £'000	2009 £'000	2008 £'000
Finance costs			
Bank loans and overdrafts	236	197	65
Loss arising on the fair value hedges attributable to the hedging instrument	71		
Finance leases	14	4	2
Total finance costs	<u>321</u>	<u>201</u>	<u>67</u>
Finance income			
Bank interest receivable	—	1	48
Other interest	—	—	113
Total Finance income	<u>—</u>	<u>1</u>	<u>161</u>

6 Taxation

	2010 £'000	2009 £'000	2008 £'000
Analysis of charge in the year			
Current tax:			
Current income tax expense	—	—	38
(Over)/under provision in prior year	(38)	—	1
Total current income tax	<u>(38)</u>	<u>—</u>	<u>39</u>
Deferred tax:			
Origination and reversal of timing differences	405	428	74
Tax on profit on ordinary activities	<u>367</u>	<u>428</u>	<u>113</u>
The charge for the period can be reconciled to the loss per the consolidated statement of comprehensive income as follows:			
Profit before tax	<u>1,052</u>	<u>1,599</u>	<u>(27)</u>
Tax at the UK corporation tax rate of 28%	295	448	(8)
Expenses not deductible for tax purposes	115	(28)	87
Adjustments to tax charge in respect of previous periods	10	—	1
Change in tax rate	(36)	16	33
R & D enhanced deductions	(17)	(8)	—
Tax expense in the income statement	<u>367</u>	<u>428</u>	<u>113</u>

7 Dividends

	2010 £'000	2009 £'000	2008 £'000
Equity dividends			
Paid during the year:			
Dividends on equity shares £1,166.67 (2009 & 2008: £Nil)	350	—	—
Dividends on equity shares £500.00 (2009 & 2008: £Nil)	150	—	—
Total dividends	<u>500</u>	<u>—</u>	<u>—</u>

8 Intangible Assets

	<i>Research and development £'000</i>	<i>Software £'000</i>	<i>Total £'000</i>
Cost			
As at 1 January 2008	—	—	—
Additions	8	—	8
As at 31 December 2008	8	—	8
Additions	45	1,810	1,855
As at 31 December 2009	53	1,810	1,863
Additions	118	—	118
As at 31 December 2010	171	1,810	1,981
Amortisation			
As at 1 January 2008	—	—	—
Charge for year	—	—	—
As at 31 December 2008	—	—	—
Charge for year	—	—	—
As at 31 December 2009	—	—	—
Charge for year	14	235	249
As at 31 December 2010	14	235	249
Net book value			
At 31 December 2010	157	1,575	1,731
At 31 December 2009	53	1,810	1,863
At 31 December 2008	8	—	8

9 Property Plant & Equipment

	<i>Freehold property £'000</i>	<i>Plant and machinery £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Equipment £'000</i>	<i>Total £'000</i>
Cost					
As at 1 January 2008	—	400	—	67	467
Additions	18	4,116	—	24	4,158
As at 31 December 2008	18	4,516	—	91	4,625
Additions	—	4,147	8	14	4,169
As at 31 December 2009	18	8,663	8	105	8,794
Additions	13	5,189	16	28	5,246
As at 31 December 2010	31	13,852	24	133	14,040
Depreciation					
As at 1 January 2008	—	3	—	—	3
Charge for year	3	90	—	28	121
As at 31 December 2008	3	93	—	28	124
Charge for year	4	332	—	31	367
As at 31 December 2009	7	425	—	59	491
Charge for year	5	552	4	37	598
As at 31 December 2010	12	977	4	96	1,089
Net book value					
At 31 December 2010	19	12,875	20	37	12,951
At 31 December 2009	11	8,238	8	46	8,303
At 31 December 2008	15	4,423	—	63	4,501

Hire purchase agreements

Included within the net book value of £12,951,000 (2009: £8,303,000; 2008: £4,501,000) is £Nil (2009 – £4,711,000, 2008 – £4,056,000) relating to plant and machinery assets held under hire purchase agreements. The depreciation charged to the consolidated financial statements in the year in respect of such assets amounted to £23,000 (2009 – £248,000, 2008 – £64,000).

The assets are secured by a bond and floating charge (note 15).

10 Financial Asset Investments

	<i>2010 £'000</i>	<i>2009 £'000</i>	<i>2008 £'000</i>
Non current			
Cost			
Unlisted investments	—	20	20
NBV	—	20	20
Current			
Investments	180	517	517

10 Financial Asset Investments continued

<i>Subsidiary Undertakings</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of shares held</i>	<i>Nature of business</i>
All held by the company:				
UK Gas Connection Limited (formerly Eco Project Management Limited)	Scotland	Ordinary Shares	100%	Gas Utility management
UK Meter Assets Limited (formerly The UK Meter Exchange Limited)	Scotland	Ordinary Shares	100%	Gas Utility management
UK Data Management Limited	Scotland	Ordinary Shares	100%	Gas Utility management

Investments in subsidiaries are accounted for at cost, which is the fair value of the consideration paid.

11 Inventories

	<i>2010 £'000</i>	<i>2009 £'000</i>	<i>2008 £'000</i>
Inventories	—	—	96

12 Trade and Other Receivables

	<i>2010 £'000</i>	<i>2009 £'000</i>	<i>2008 £'000</i>
Trade receivables	330	838	1,950
Other receivables	823	690	464
Corporation tax repayable	51	15	
VAT recoverable		415	317
Other debtors	15	—	2,208
	<u>1,219</u>	<u>1,958</u>	<u>4,939</u>

The debtors above include the following amounts falling due after more than one year:

	<i>2010 £'000</i>	<i>2009 £'000</i>	<i>2008 £'000</i>
Other debtors	<u>31</u>	<u>30</u>	<u>2,121</u>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group's credit risk is primarily attributable to trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. There was no allowance for doubtful receivables in the year (2009: £Nil, 2008 – £Nil). The ageing profile of trade receivables is shown below.

	<i>2010 £'000</i>	<i>2009 £'000</i>	<i>2008 £'000</i>
Current	113	323	1,192
31-60 days	124	270	386
60-90 days	26	57	208
over 90 days	67	188	164
	<u>330</u>	<u>838</u>	<u>1,950</u>

Trade receivables are non-interest bearing and are generally on 30-90 days terms.

Trade receivables due from related parties at 31 December 2010 amounted to £31,000 (2009: £30,000; 2008: £2,121,000).

12 Trade and Other Receivables continued

Receivables are all in sterling denominations.

The directors are of the opinion that none of the overdue debts as at 31 December 2010 (2009: £Nil; 2008 £Nil) require impairment.

13 Cash and Cash Equivalents

Cash and cash equivalents comprise cash held by the Group. The carrying amount of the asset approximates the fair value. All balances are held in sterling.

During each period, there were no amounts of cash placed on short term deposit.

For the purposes of the cash flow statement, cash and cash equivalents comprise:

	2010 £'000	2009 £'000	2008 £'000
Cash	1,835	592	798
Bank overdraft	(11)	(10)	(433)
	<u>1,824</u>	<u>582</u>	<u>365</u>

14 Trade and Other Payables

	2010 £'000	2009 £'000	2008 £'000
Current:			
Trade payables	1,568	1,394	1,122
Other payables	274	72	26
Other taxes	245	59	64
Accruals and deferred income	4,003	4,313	4,350
	<u>6,090</u>	<u>5,838</u>	<u>5,562</u>

The maturity profile of trade payables is given below:

	2010 £'000	2009 £'000	2008 £'000
Current	1,113	673	732
31-60 days	122	584	244
60-90 days	198	72	51
over 90 days	135	65	95
	<u>1,568</u>	<u>1,394</u>	<u>1,122</u>

Trade payables are non-interest bearing and are normally settled on 30-45 day terms.

All trade liabilities are sterling denominated.

15 Bank Loans and Overdrafts

	2010 £'000	2009 £'000	2008 £'000
Current			
Bank loans	992	39	35
Bank overdrafts	11	10	433
	<u>1,003</u>	<u>49</u>	<u>468</u>
Non-current			
Bank loans	8,253	427	469
Bank overdraft	—	—	—
Non-current	<u>8,253</u>	<u>427</u>	<u>469</u>

Bank loans at 31 December 2010 relate to a term loan facility of £0.5 million and a master lease facility of £12 million.

The term loan is for a term of 5 years and is payable in equal quarterly instalments of £25,000. The term loan attracts interest at a rate of 3.5 per cent. over the 3 month LIBOR.

The master lease facility has a term of 10 years following drawdown period (September 2011) and is repayable in monthly instalments. This facility attracts interest at a rate of 3.1 per cent. over 3 month LIBOR. The Bank retains ownership of all assets acquired using this facility until full repayment.

The Bank have a bond and floating charge over current and future property and assets.

The Group have fixed the bank interest payable through an interest rate swap and cap (see note 18).

16 Other Creditors

	2010 £'000	2009 £'000	2008 £'000
Other creditors (Note 21)	<u>—</u>	<u>554</u>	<u>—</u>

17 Commitments Under Hire Purchase Agreements

	2010 £'000	2009 £'000	2008 £'000
Future minimal commitments under hire purchase agreements are as follows:			
Current			
Amounts payable within 1 year	<u>7</u>	<u>510</u>	<u>420</u>
Non current			
Amounts payable between 2 to 5 years	<u>—</u>	<u>3,974</u>	<u>3,124</u>
Amounts payable after more than 5 years	<u>—</u>	<u>—</u>	<u>495</u>
	<u>—</u>	<u>3,974</u>	<u>3,619</u>

The Group has hire purchase contracts for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

The Directors consider that the future minimum lease payments under hire purchase contracts approximate to the present value of the minimum payments.

Obligations under hire purchase contracts are secured on the underlying assets.

18 Other Financial Liabilities and Assets

The Group's treasury policy and management of financial instruments, which form part of these financial statements, are set out in the financial review.

	2010 £'000	2009 £'000	2008 £'000
Other financial assets	99	—	—
Other financial liabilities	171	—	—

Other financial assets and liabilities relate to the fair value adjustment on interest rate swaps.

The Group uses interest rate swaps to manage interest rate risk on interest-bearing loans and borrowings which mean that the Group pays a fixed interest rate rather than being subject to fluctuations in the variable rate. The Group has not designated these derivatives as cash flow hedges.

The interest rate swaps were entered into during 2010 and hence there are no fair value adjustments as at 31 December 2009 or 31 December 2008.

The interest rate swaps cover an interest rate swap for an amount of £3,800,000 as at 31 December 2010 (2009: £nil; 2008: £nil) and an interest rate cap over an amount of £4,000,000 as at 31 December (2009: £nil; 2008: £nil).

The interest rate swap result in a fixed interest rate of 2.99 per cent. and the interest rate cap applies a floating rate with a cap of 2.99 per cent.

The termination dates for both derivatives is 15 September 2015.

The movement in the fair value is shown below

	2010 £'000	2009 £'000	2008 £'000
Interest rate swap			
Opening position	—	—	—
Adjustment to fair value	99	—	—
Closing position	99	—	—
Interest rate cap			
Opening position	—	—	—
Adjustment to fair value	(171)	—	—
Closing position	(171)	—	—

Fair values

The directors do not consider there to be any material differences between the fair values and carrying values of any financial assets or liabilities recorded within these financial statements at the balance sheet date other than as set out below.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2010, the Group held the following financial instruments measured at fair value:

18 Other Financial Liabilities and Assets continued

<i>Assets measured at fair value</i>	<i>31 December 2010 £'000</i>	<i>Level 1 £'000</i>	<i>Level 2 £'000</i>	<i>Level 3 £'000</i>
Financial assets at fair value through the income statement:				
Interest rate derivatives	99	—	99	—
	<u>99</u>	<u>—</u>	<u>99</u>	<u>—</u>
<i>Liabilities measured at fair value</i>	<i>31 December 2010 £'000</i>	<i>Level 1 £'000</i>	<i>Level 2 £'000</i>	<i>Level 3 £'000</i>
Financial liabilities at fair value through the income statement:				
Interest rate derivatives	(171)	—	(171)	—
	<u>(171)</u>	<u>—</u>	<u>(171)</u>	<u>—</u>

Fair value has been assessed on a Mark to Market basis.

The above liabilities are shown on the statement of financial position as other current financial assets and other current financial liabilities.

During the reporting period ending 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

19 Financial Risk Management

The Board reviews and agrees policies for managing the risks associated with interest rate, credit and liquidity risk. The Group has in place a risk management policy that seeks to minimise any adverse effect on the financial performance of the Group by continually monitoring the following risks:

Interest rate risk

The Group's interest rate risk arises as a result both its long and short term borrowing facilities.

The Group seeks to manage exposure to interest rate fluctuations through the use of fixed interest rate swaps.

Interest rate sensitivity

The following table demonstrates the sensitivity to a change in the interest rates on the portion of loans and borrowings, after the impact of hedge accounting. The Group's profit before tax is affected through the impact on floating rate borrowings as follows:

<i>Pound sterling</i>	<i>Increase/decrease in basis points</i>	<i>Effect on profit before tax £'000</i>
2010	1%	49
2009	1%	47
2008	1%	12
	<u>1%</u>	<u>12</u>

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group (being bank loans and overdrafts, obligations under finance leases and other financial liabilities) as at each period end is as follows:

	<i>Fixed Rate Financial liabilities £'000</i>	<i>Variable rate Financial liabilities £'000</i>	<i>Total £'000</i>
2010	5,000	4,434	9,434
2009	—	4,960	4,960
2008	—	4,976	4,976
	<u>5,000</u>	<u>4,976</u>	<u>9,976</u>

19 Financial Risk Management continued

The fixed rate financial liabilities relates to the portion of the banking facility that is fixed through hedging instruments.

The following is the maturity profile of the Group's financial liabilities as at 31 December:

	2010 £'000	2009 £'000	2008 £'000
Fixed rate			
Less than 1 year	500	—	—
2 – 5 years	2,000	—	—
Over 5 year	2,500	—	—
	<u>5,000</u>	<u>—</u>	<u>—</u>
Variable rate			
Less than 1 year	570	560	888
2-5 years	1,567	4,400	4,088
Over 5 year	2,297	—	—
	<u>4,434</u>	<u>4,960</u>	<u>4,976</u>

Interest rate risk profile of financial assets

The Group's financial assets at 31 December 2010 comprise cash and trade receivables. The cash balance of £1,835,000 (2009: £592,000, 2008: £798,000) are floating rate financial assets.

Fair values of financial liabilities and financial assets

The fair values based upon the market value or discounted cash flows of financial liabilities and financial assets, held in the Group was not materially different from their book values.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates is insignificant as primarily all, of the Group's operating activities are denominated in pound sterling.

Liquidity Risk

The Group manages its cash in a manner designed to ensure maximum benefit is gained whilst ensuring security of investment sources. The Group's policy on investment of surplus funds is to place deposits at institutions with strong credit ratings.

The ageing and maturity profile of the Group's material liabilities are covered within the relevant liability note.

Credit Risk

Credit risk with respect to trade receivables is due to the Group trading with a limited number of companies who are generally large utility companies or financial institutions. Therefore the Group does not expect in the normal course of events that these debts are at significant risk. The Groups maximum exposure to credit risk equates to the carrying value of cash held on deposit and trade and other receivables.

The Group's maximum exposure to credit risk from its customers is £330,000 (2009:£838,000; 2008:£1,950,000) as disclosed in note 12 – trade and other receivables.

The Group regularly monitors and updates its cash flow forecasts to ensure it has sufficient and appropriate funds to meet its ongoing operational requirements whilst maintaining adequate headroom on its facilities to ensure no breach in its banking covenants.

Capital management

Capital is the equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and

19 Financial Risk Management continued

makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, sell assets, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings less cash. EBITDA is calculated as operating profit before any significant non-recurring items, interest, tax, depreciation and amortisation.

20 Deferred Taxation

The movement in the deferred taxation asset during the period was:

	2010 £'000	2009 £'000	2008 £'000
Opening deferred tax liability	559	131	58
Increase in provision through income statement	405	428	74
Closing deferred tax liability	<u>964</u>	<u>559</u>	<u>132</u>

All movements identified have gone through the income statement.

The group's provision for deferred taxation consists of the tax effect of timing differences in respect of:

Group	2010 £'000	2009 £'000	2008 £'000
Excess of taxation allowances over depreciation on fixed assets	1,405	928	277
Tax losses available	(421)	(369)	(145)
Fair value of interest rate swaps (net)	(20)	—	—
	<u>964</u>	<u>559</u>	<u>132</u>

The deferred tax included in the income statement is as follows:

	2010 £'000	2009 £'000	2008 £'000
Accelerated capital allowances	477	652	219
Tax losses	(52)	(224)	(145)
Movement in fair value of interest rate swaps	(20)	—	—
	<u>405</u>	<u>428</u>	<u>74</u>

21 Related Party Transactions

A number of key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

During the period the Group entered into the following transactions with related parties:

During the year the Group paid rent amounting to £65,500 (2009: £65,500, 2008: £65,500) to the Directors' pension scheme, Eco Retirement Benefit Scheme for the use of certain premises. Both S Timoney and A Foy are trustees of the scheme. At the year-end date an amount of £6,000 (2009: £13,000; 2008: £6,000) was outstanding in this regard.

21 Related Party Transactions continued

As at the year end there was amounts due to Mr SP Timoney, a director of the Group of £112,500 (2009: £nil; 2008:£nil). This amount relates to monies received and dividends payable net of certain expenses paid on his behalf.

As at the year end there was amounts due to Mr A Foy, a director of the Group of £34,000 (2009: £nil; 2008:£nil). This amount relates to monies received and dividends payable net of certain expenses paid on his behalf.

During the year, the Group paid management charges to FM Assets Limited, a company owned and controlled by Mr SP Timoney and Mr A Foy of £16,000 (2009: £315,000; 2008: £345,000). As at the year-end an amount of £121,000 (2009: £57,000; 2008: £nil) was outstanding in this regard.

The Group also use to pay an IT system rental to FM Assets. During the year the amount paid was £Nil (2009: £450,000; 2008: £450,000). As at the year end, the amount outstanding was £Nil (2009: £554,000; 2008: £nil) and is included as other creditors (note 16).

The Group also made various purchases and sales with FM Assets. During the year the Group purchased assets amounting to £Nil (2009: £1,849,000; 2008: £nil), purchased consumables amounting to £Nil (2009: £Nil; 2008: £1,601,000) and made sales of £Nil (2009: £586,000; 2008: £Nil). The net amounts due at the year end date amounted to £Nil (2009: £Nil; 2008: £2,144,000).

22 Share Capital

	2010 £'000	2009 £'000	2008 £'000
Allotted and called up: 300 Ordinary shares – of £1 each	—	—	—

On 27 October 2009 the company was formed. £200 of share capital was issued in return for shares in the company's principal subsidiaries. £100 of share capital was issued for cash.

23 Other Reserve

This is a non-distributable reserve that arose by applying merger relief under s162 CA06 (previously s131 CA85) to the shares issued in 2008 in connection with the group restructuring. This was previously recognised as a merger reserve under UK GAAP. Under IFRS, this has been classed as an “other reserve”.

24 Commitments Under Operating Leases

The Group has entered into commercial leases for office space. These leases have lives between one and fifteen years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at each year ended are as follows:

	2010 £'000	2009 £'000	2008 £'000
Future minimal commitments under operating lease agreements are as follows:			
Payable within one year	82	42	42
Payable within 2 and 5 years	166	166	166
Payable after 5 years	291	332	374
	<u>539</u>	<u>540</u>	<u>582</u>

25 Ultimate Controlling Party

The Group's ultimate controlling party is Mr SP Timoney, the majority shareholder.

26 Contingent liabilities

HMRC have opened enquiries into certain tax deductions made in 2007 and 2008. No formal assessments of tax have been made and the enquiries remain open. In the event that HMRC successfully challenge such deductions, additional tax could become payable. The amount of such tax is uncertain as it would depend on the approach taken by HMRC and whether there are any settlement arrangements. Potential further tax and interest assessed could be in the range of some £0.2 million to £0.5million. The shareholders of the Group as at the balance sheet date have provided a full indemnity to cover any taxes and interest that may arise as a result of the open enquiries into these deductions, further details of which is given in Part VII of this document. No provision has been recognised on the basis that any possible obligation is dependent on uncertain future events.

27 Events after the Reporting Period

On 17 June 2011, each of the 300 Ordinary Shares of £1 each in issue were sub-divided into 100 ordinary shares of £0.01 each.

On 15 June 2011, the Company changed its name from UK Smart Metering Limited to Smart Metering Systems Limited. On 20 June 2011, the Company re-registered as a public limited company.

On 17 June 2011, a bonus issue of 4,980,000 ordinary shares of £0.01 each was made to the shareholders in proportion to their existing shareholdings.

On 20 June 2011, a bonus issue of 61,663,080 ordinary shares of £0.01 each was made to the shareholders in proportion to their existing shareholdings.

PART V
**INFORMATION RELATING TO THE TURNOVER,
GROSS PROFIT AND EBITDA ESTIMATE**

SECTION A: ACCOUNTANT'S REPORT ON THE TURNOVER, GROSS PROFIT AND EBITDA ESTIMATE

The following is the full text of a report on SMS from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of SMS.



BAKER TILLY

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274 Sauchiehall Street
Glasgow G2 3EH
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The Directors
Smart Metering Systems plc
Level 5/6
142 St Vincent Street
Glasgow G2 5LA

24 June 2011

Dear Sirs

SMART METERING SYSTEMS PLC (“the Company”)

We report on the profit estimate comprising an estimate of turnover, gross profit and EBITDA of Smart Metering Systems plc (“the Company”) and its subsidiaries (together “the Group”) for the 6 month period ending 30 June 2011 (the “Estimates”). The Estimates, and the material assumptions upon which they are based, are set out in Section B of this Part V, on page 82 of this admission document (“Admission Document”) issued by the Company dated 24 June 2011. This report is required by paragraph 13.2 of Annex I of Appendix 3.1.1 of the Prospectus Rules as if they had been applied to this Admission Document is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph 13.2 of Annex I of Appendix 3.1.1 of the Prospectus Rules as if it had been applied by part (a) of Schedule Two to the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 20.1 of Annex I of Appendix 3.1.1 of the Prospectus Rules as if it had been applied to this Admission Document, consenting to its inclusion in the Admission Document.

Our work has been undertaken so that we might state those matters we are required to state in an accountants’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than a person as and to the extent provided by paragraph 13.2 of Annex I of the Prospectus Rules as if it had been applied by part (a) of Schedule Two to the AIM Rules, for our audit work, for this report, or for the opinions we have formed or consenting to its inclusion in the Admission Document.

Responsibilities

It is the responsibility of the directors of the Company (“Directors”) to prepare the Estimates in accordance with the requirements of the AIM Rules. In preparing the Estimates, the Directors are responsible for correcting errors that they have identified which may have arisen in unaudited management accounts used as the basis of preparation for the Estimates.

It is our responsibility to form an opinion as to the proper compilation of the Estimates and to report that opinion to you.

Basis of Preparation of the Estimates

The Estimates have been prepared on the basis stated on page 82 of the Admission Document and is based on the unaudited management accounts for the 5 months ended 31 May 2011 and a forecast for the 1 month to 30 June 2011. The Estimates are required to be presented on a basis consistent with the accounting policies of the Company.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Estimates has been prepared and considering whether the Estimates have been accurately computed based upon the disclosed assumptions and the accounting policies of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Estimates have been properly compiled on the basis stated.

However, the Estimates have not been audited. The actual results reported, therefore may be affected by revisions required to accounting estimates due to changes in circumstances, the impact of unforeseen events and the correction of errors in the unaudited management accounts. Consequently, we can express no opinion as to whether the actual results achieved will correspond to those shown in the Estimates and the differences may be material.

Opinion

In our opinion, the Estimates have been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Company.

Declaration

We are responsible for this report as part of the Admission Document as if part (a) of Schedule Two to the AIM Rules apply and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with paragraph 1.2 of Annex I of Appendix 3.1.1 of the Prospectus Rules and paragraph 1.2 of Annex III of Appendix 3.1.1 of the Prospectus Rules

Yours faithfully

Baker Tilly Corporate Finance LLP

Regulated by the Institute of Chartered Accountants in England and Wales

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 6th Floor, 25 Farringdon Street, London EC4A 4AB

SECTION B: THE TURNOVER, GROSS PROFIT AND EBITDA ESTIMATE

The Directors estimate that, in the absence of unforeseen circumstances and on the basis set out below, SMS Group's turnover, gross profit and EBITDA for the six month period ending 30 June 2011 ("the Estimates"), as set out in the paragraph headed "Current trading and prospects" in Part I of this document, will be £6.8 million, £3.5 million and £2.2 million respectively.

The Estimates have been based on the unaudited management accounts for the 5 months ended 31 May 2011 and a Directors forecast for the one month ended 30 June 2011.

The Estimates exclude exceptional costs and assumes no change in fair value of financial instruments since 31 December 2010.

The Estimates have been prepared on a basis consistent with the accounting policies adopted by the Group.

The Estimates have not been audited.

The Estimates have been prepared after due and careful enquiry by the Directors.

SECTION C: LETTER FROM CENKOS



The Directors
Smart Metering Systems plc
Level 5/6
142 St Vincent Street
Glasgow
G2 5LA

24 June 2011

Cenkos Securities plc
66 Hanover Street
Edinburgh EH2 1EL
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f 0131 220 2051 (main)
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Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS
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f 020 7397 8901
www.cenkos.com

Smart Metering Group plc

We refer to the turnover, gross profit and EBITDA estimate of Smart Metering Group plc (the “**Company**”) and its subsidiary undertakings for the financial period to 30 June 2011 (the “**Estimate**”) as set out in Section B of Part V of the Admission Document dated 24 June 2011 (the “**Admission Document**”).

We have discussed the Estimate with you and the Reporting Accountant and the principal bases and assumptions on which the Estimate has been made.

Based on the foregoing, we are satisfied that the Estimate (for which you, as Directors, are solely responsible) has been made after due and careful enquiry by the Directors of the Company. This letter is being delivered to you pursuant to paragraph (d)(iii) of Schedule 2 of the AIM Rules and may be included in the Admission Document solely for the purpose of that paragraph.

Yours faithfully

Cenkos Securities plc

Cenkos Securities plc is authorised and regulated by the Financial Services Authority and is a Member of the London Stock Exchange.

Registered office:
6.7.8 Tokenhouse Yard,
London EC2R 7AS

Registered in England and Wales
No. 5210733

PART VI

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE SMS GROUP

SECTION A: ACCOUNTANTS' REPORT ON THE PRO FORMA FINANCIAL INFORMATION

The following is the full text of a report on the Group from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of the Company.



BAKER TILLY

Breckenridge House
274 Sauchiehall Street
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The Directors
Smart Metering Systems plc
Level 5/6
142 St Vincent Street
Glasgow G2 5LA

24 June 2011

Dear Sirs

Smart Metering Systems plc (“the Company”)

We report on the pro forma financial information (the “Pro Forma Financial Information”) set out in Section B Part VI of the admission document dated 24 June 2011 (“Admission Document”) of Smart Metering Systems plc, which has been prepared on the basis described in Section B, for illustrative purposes only, to provide information about how the proposed placing of up to 16,666,667 of new ordinary shares (together the “Transaction”) might have affected the Company’s consolidated financial information presented as at 31 December 2010 on the basis of the accounting policies adopted by the Company in preparing its financial statements for the period ended 31 December 2010. This report is has been prepared in accordance with the requirements of paragraph 20.2 of Annex I of Appendix 3.1.1 of the Prospectus Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph 20.2 of Annex I of Appendix 3.1.1 of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, and given solely for the purposes of complying with paragraph 20.2 of Annex I of Appendix 3.1.1 of the Prospectus Rules as if they had been applied to this Admission Document, consenting to its inclusion in the Admission Document.

This report is made solely for the purposes of paragraph 20.2 of Annex I of the Prospectus Rules as if they had been applied by part (a) of Schedule Two to the AIM Rules. Our audit work has been undertaken so that we might state those matters we are required to state in an accountants’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than a person as and to the extent provided by paragraph 20.2 of Annex I of the Prospectus Rules as if it had been applied by part (a) of Schedule Two to the AIM Rules, for our audit work, for this report, or for the opinions we have formed or consenting to its inclusion in the Admission Document.

Responsibilities

It is the responsibility of the directors of Company to prepare the Pro Forma Financial Information in accordance with paragraph 20.2 of Annex I of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules.

It is our responsibility to form an opinion, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in any jurisdictions other than the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those other standards and practices.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of part (a) of Schedule Two to the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with item 1.2 of Annex I and item 1.2 of Annex III of Appendix 3.1.1 of the Prospectus Rules as applied by part (a) of Schedule Two to the AIM Rules.

Yours faithfully

Baker Tilly Corporate Finance LLP

Regulated by the Institute of Chartered Accountants in England and Wales

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SECTION B: UNAUDITED PRO-FORMA CONSOLIDATED STATEMENT OF NET ASSETS OF SMART METERING SYSTEMS PLC

Set out below is an unaudited pro-forma consolidated statement of net assets of Smart Metering Systems plc (the “Group”), which has been prepared by the Directors on the basis of the notes set out below, to show the effects of the proposed placing on the consolidated net assets of the Group as at 31 December 2010 as if these transactions had occurred on that date.

It is the sole responsibility of the Directors to prepare the pro-forma statement. The pro-forma statement has been prepared by the Directors for illustrative purposes only and, because it addresses a hypothetical situation, does not represent the Group’s actual consolidated financial position either prior to or following the proposed placing.

	<i>Net assets of the Group at 31 Dec 2010 (note 1) £'000</i>	<i>Adjustment (note 2) £'000</i>	<i>Pro-forma net assets of the Group £'000</i>
ASSETS			
Non-current assets			
Intangible assets	1,731	—	1,731
Property, plant and equipment	12,951	—	12,951
	<u>14,682</u>	<u>—</u>	<u>14,682</u>
Current assets			
Trade and other receivables	1,219	—	1,219
Financial asset investments	180	—	180
Cash and cash equivalents	1,835	8,650	10,485
Other current financial assets	99	—	99
	<u>3,333</u>	<u>8,650</u>	<u>11,983</u>
TOTAL ASSETS	<u>18,015</u>	<u>8,650</u>	<u>26,665</u>
LIABILITIES			
Current liabilities			
Trade and other payables	6,090	—	6,090
Bank loans and overdrafts	1,003	—	1,003
Obligations under hire purchase agreements	7	—	7
Other current financial liabilities	171	—	171
	<u>7,271</u>	<u>—</u>	<u>7,271</u>
Non-current liabilities			
Bank loans	8,253	—	8,253
Deferred tax liabilities	964	—	964
	<u>9,217</u>	<u>—</u>	<u>9,217</u>
TOTAL LIABILITIES	<u>16,488</u>	<u>—</u>	<u>16,488</u>
NET ASSETS	<u>1,527</u>	<u>8,650</u>	<u>10,177</u>

Notes

1. The net assets of the Group have been extracted without material adjustment from the financial information set out in Part IV of this document. No account has been taken of any movement in net assets of the Group since 31 December 2010.
2. The unaudited pro forma consolidated statement of net assets has been adjusted to include net proceeds from the Placing of £8,650,000, being gross placing proceeds of £10,000,000, net of expenses amounting to £1,350,000.

PART VII

ADDITIONAL INFORMATION

1. Responsibility Statements

- 1.1 The Directors, whose names and functions are set out on page 10 of this document, and the Company, accept responsibility, both individually and collectively, for all of the information contained in this document and for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 Murgitroyd accepts responsibility for its report set out in Part III of this document. To the best of the knowledge and belief of Murgitroyd (who has taken all reasonable care to ensure that such is the case) the information contained therein is in accordance with the facts and contains no omissions likely to affect its import.

2. Incorporation and Registration

- 2.1 The Company, whose registered office is at Level 6, The Exchange Building, 142 St Vincent Street, Glasgow G2 5LA was incorporated and registered in Scotland under the 2006 Act on 27 October 2009 as a private limited company with registration number SC367563. The Company changed its name to “Smart Metering Systems Limited” on 15 June 2011. The Company was re-registered as a public limited company on 20 June 2011. The Company’s principal place of business is at Level 5/6, The Exchange Building, 142 St Vincent Street, Glasgow G2 5LA. The telephone number of the Company’s principal place of business is 0141 249 3850. The address of the Company’s corporate website on which the information required by Rule 26 of the AIM Rules can be found is www.sms-plc.com.
- 2.2 The principal activity of the Company is to act as a holding company. It acts as the holding company of the Group, whose principal activities are described more fully in Part I of this document and summarised at paragraph 3 below.
- 2.3 The Company has no administrative, management or supervisory bodies other than the Board, the remuneration committee, audit committee and the nomination committee.
- 2.4 The Company is governed by its Articles and the principal legislation under which the Company operates is the 2006 Act (where applicable) and the regulations made thereunder.
- 2.5 The Company’s auditors are Baker Tilly, Breckenridge House, 274 Sauchiehall Street, Glasgow G2 3EH, which is a member of the Institute of Chartered Accountants in Scotland.
- 2.6 The accounting reference date of the Company is 31 December.
- 2.7 The International Security Identification Number or “ISIN” for the Ordinary Shares is GB00B4X1RC86.
- 2.8 Save as disclosed in paragraph 3 below, there are no undertakings in which the Company holds a proportion of the capital that is likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits.
- 2.9 The liability of the members of the Company is limited to the amount, if any, unpaid on the shares respectively held by them.
- 2.10 The Company is domiciled in the United Kingdom.

3. Group Organisation

- 3.1 The Company is the Group's holding company and has the following wholly owned subsidiary undertakings, all of which are, directly or indirectly, held by the Company, as set out below:

<i>Name</i>	<i>Country of incorporation or resident</i>	<i>Proportion of ownership interest (%)</i>	<i>Proportion of voting power (%)</i>	<i>Activity</i>
UK Data Management Limited	Scotland	100	100	Operating Company
UK Gas Connection Limited	Scotland	100	100	Operating Company
UK Meter Assets Limited	Scotland	100	100	Operating Company
UKME (IP) Limited	England	100	100	Dormant Company
SMS (IP) Limited	Scotland	100	100	Operating Company
The UK Meter Exchange Limited	Scotland	100	100	Dormant Company
UK Water Connection Limited	England	100	100	Dormant Company
UK Smart Metering Group Limited	Scotland	100	100	Dormant Company
Smart Metering Systems Limited	Scotland	100	100	Dormant Company
ECO Project Management Limited	Scotland	100	100	Dormant Company
UK Electricity Connection Limited	Scotland	100	100	Dormant Company

4. Share Capital of the Company

- 4.1 The history of the Company's share capital from incorporation to Admission is as follows:

- 4.1.1 on incorporation, WJM Share Nominees Limited was issued with 1 Ordinary Share fully subscribed for at par value.
- 4.1.2 On 24 December 2009 the following shares were issued to Stephen Timoney and Alan Foy for the following amounts:
- (a) 74 Ordinary Shares fully subscribed for cash at par value issued to Stephen Timoney;
 - (b) 25 Ordinary Shares fully subscribed for cash at par value issued to Alan Foy;
 - (c) 75 Ordinary Shares allotted to Stephen Timoney at par value in exchange for 75 ordinary shares in UKMA being transferred to the Company;
 - (d) 25 Ordinary Shares allotted to Alan Foy at par value in exchange for 25 ordinary shares in UKMA being transferred to the Company;
 - (e) 75 Ordinary Shares allotted to Stephen Timoney at par value in exchange for 750 ordinary shares in UKGC being transferred to the Company; and
 - (f) 25 Ordinary Shares allotted to Alan Foy at par value in exchange for 250 ordinary shares in UKGC being transferred to the Company.
- 4.1.3 On 24 December 2009 WJM Nominees Limited transferred its one Ordinary Share held in the Company to Stephen Timoney for £1.
- 4.1.4 On 17 June 2011 each of the 300 Ordinary Shares of £1 each then in issue was sub-divided into 100 Ordinary Shares of £0.01 each.
- 4.1.5 On 17 June 2011 4,980,000 Ordinary Shares of £0.01 each were issued to Stephen Timoney and Alan Foy by means of a bonus issue as follows:
- (a) Stephen Timoney – was issued 3,735,000 Ordinary Shares of £0.01 each; and
 - (b) Alan Foy – was issued 1,245,000 Ordinary Shares of £0.01 each.
- 4.1.6 On 20 June 2011 61,663,080 Ordinary Shares of £0.01 each were issued to Stephen Timoney and Alan Foy by means of a bonus issue as follows:
- (a) Stephen Timoney – was issued 46,247,310 Ordinary Shares of £0.01 each; and
 - (b) Alan Foy – was issued 15,415,770 Ordinary Shares of £0.01 each.

- 4.2 The issued fully paid up share capital of the Company as at the date of this document and as it is expected to be immediately following Admission, is as follows:

<i>Ordinary Shares</i>	<i>Number</i>	<i>£</i>
As at the date of this document	66,673,080	666,730.80
Immediately following Admission	83,339,747	833,397.47

- 4.3 On 20 June 2011, the Shareholders passed resolutions on the following terms:

4.3.1 generally and unconditionally to authorise the Directors, until the conclusion of the Company's annual general meeting to be held in 2012, to allot shares in the Company or grant rights to subscribe for or convert any security into shares in the Company in accordance with section 551 of the 2006 Act up to an aggregate nominal amount of £441,688;

4.3.2 to authorise the Directors, until the conclusion of the Company's annual general meeting to be held in 2012, pursuant to Section 570 of the 2006 Act to allot equity securities (as defined in Section 560 of the 2006 Act) pursuant to the authority conferred by the resolution referred to in paragraph 4.3.1 above as if Section 561(1) of the 2006 Act did not apply provided that the power is limited to the allotment of equity securities:

- (a) in connection with the Placing;
- (b) pursuant to the terms of the Share Schemes;
- (c) in connection with a rights issue; and
- (d) up to an aggregate nominal amount of £41,670.

- 4.4 On 21 June 2011, the Directors resolved to issue, conditional upon Admission, 16,666,667 new Ordinary Shares pursuant to the Placing.

- 4.5 The provisions of Section 561 of the 2006 Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are paid up in cash) apply to the unissued share capital of the Company except to the extent disapplied by the resolution referred to in paragraph 4.3.2 above.

- 4.6 The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after Admission on the Ordinary Share capital.

- 4.7 Save as disclosed in this Part VII, since 27 October 2009 (being the date of incorporation of the Company):

4.7.1 no share or loan capital in the Company or the Group is under option or is the subject of an agreement, conditional or unconditional, to be put under option;

4.7.2 no share or loan capital of the Company or of the Group has been issued, or is now proposed to be issued, fully or partly paid, either for cash or other consideration to any person;

4.7.3 no person has any preferential subscription rights for any share capital of the Company;

4.7.4 no commissions, discounts, brokerages or other special terms, have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company;

4.7.5 the Company does not hold any of its own Ordinary Shares and none of the Company's subsidiaries hold any of the Ordinary Shares;

4.7.6 the Company has no convertible debt securities, exchangeable debt securities or debt securities with warrants in issue; and

- 4.7.7 there are no acquisition rights or obligations over the authorised but unissued share capital of the Company and there is no undertaking to increase the share capital of the Company.
- 4.8 The Ordinary Shares have been created under the 2006 Act.
- 4.9 The Ordinary Shares are in registered form and may be held either in certificated form or in uncertificated form through CREST. The Articles permit the Company to issue shares in uncertificated form.
- 4.10 No shares of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.
- 4.11 The Company does not have in issue any securities not representing share capital.
- 4.12 As at 23 June 2011 (the latest practicable date before the publication of this document), options and other rights to subscribe for shares were outstanding over a total of 3,800,833 Ordinary Shares. The total number of Ordinary Shares in respect of which options may be granted in any ten year period under the Share Option Schemes and any future option scheme to be constituted by the Company shall not, at any time after Admission, exceed 10 per cent. of the issued share capital of the Company. Further details of the options over the Company's share capital are set out in paragraph 15 of this Part VII.
- 4.13 There are no issued but not fully paid Ordinary Shares.
- 4.14 None of the Ordinary Shares have been marketed or are being made available to the public in whole or in part in conjunction with the application for Admission.
- 4.15 The Existing Ordinary Shares have not been admitted to dealing on any recognised investment exchange or other trading facility, nor has any application for such admission been made and it is not intended to make any arrangements for dealings in the Ordinary Shares on any such exchange other than the application to be made in connection with Admission.
- 4.16 The Company has the contractual capacity of a natural person and is empowered to borrow, guarantee and give security.

5. Summary of the Articles of Association

- 5.1 Copies of the Articles are available on written request to the Company Secretary of the Company.
- 5.2 The Articles of the Company contain, *inter alia*, provisions to the following effect:

5.2.1 Voting rights

Subject to the 2006 Act, the Articles and any rights or restrictions attaching to such shares, on a show of hands every member who is present in person or by proxy (or where such member is a corporation by representative) shall have one vote and on a poll every member present in person or by proxy (or where such member is a corporation by representative) shall have one vote for every share held by him. A proxy need not be a member of the Company.

5.2.2 Variation of rights

If at any time the capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares in the Company may be varied or abrogated (i) in such manner (if any) as may be provided by those rights or (ii) with the consent in writing of the holders of at least three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. At every such meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

5.2.3 *Alteration of capital*

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares and sub-divide all or any of its shares into shares of a smaller amount than is fixed by the memorandum of association. The Company may, subject to the 2006 Act, by special resolution reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner.

Subject to and in accordance with the provisions of the 2006 Act, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been authorised by such resolution of the Company as may be required by the 2006 Act and by a special resolution passed at a separate general meeting of the holders of each class of shares (if any) which at the date on which the contract is authorised by the Company entitle them to convert all or any of the shares of that class held by them into equity share capital of the Company.

5.2.4 *Transfer of shares*

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in any other form acceptable to the Board and (2) in the case of uncertificated shares, in accordance with to the CREST Regulations. The form of transfer of a certificated share must be signed by or on behalf of the transferor and, if the relevant certificated share is not fully paid, by or behalf of the transferee. The Directors may refuse to register a transfer of a certificated share which is not fully paid, or on which the Company has a lien provided that this power will not be exercised so as to disturb the market in those shares. Subject to paragraph 5.2.6 below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share, is in favour of not more than four joint transferees, is duly stamped, if required, and is accompanied by the share certificate and any other evidence of title reasonably required by the Directors.

5.2.5 *Dividends*

- (a) The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid except out of profits available for distribution under the provisions of the 2006 Act and no dividend shall exceed the amount recommended by the Directors. If and to the extent that, in the opinion of the Board, the profits of the Company justify such payments, the Board may pay interim dividends.
- (b) Unless and to the extent that the rights attached to any shares or the terms of allotment of any shares or the Article to provide to the contrary, and subject to paragraph 5.2.6 below, all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any part or parts of the period in respect of which the dividend is paid.
- (c) All dividends unclaimed for a period of 12 years from the due date for payment shall be forfeited, and shall revert to, the Company.

5.2.6 *Restrictions on rights*

Subject to the 2006 Act, if a member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under section 793 of the 2006 Act and is in default for the prescribed period (as defined in the Articles) in supplying to the Company the information required by such notice, then (unless the board otherwise determines) in respect of relevant shares (as defined in the Articles), the member shall not (for so long as the default continues) nor shall any transferee to whom any of such shares (“default shares”) are transferred (other than pursuant to an approved transfer (as defined in the Articles) or pursuant to paragraph (c) below) be

entitled to attend or vote, either personally or by proxy or by a duly authorised representative (in the case of a corporate member), at a general meeting (including a separate meeting of the holders of shares of a particular class) or to exercise any other right conferred by membership in relation to such meetings.

Where the default shares represent not less than 0.25 per cent. of the issued shares of the class in question, the board may, in its absolute discretion,

- (a) direct that the whole or any part of any dividend which would otherwise be payable in respect of the default shares shall be retained by the Company (without any liability to pay interest on such moneys when they are finally paid to the member); and/or
- (b) all or any shares which would otherwise be issued by the Company in lieu of a cash dividend on the default shares shall be withheld from the member or otherwise retained by the Company (without any liability to pay compensation in respect of such shares when they are finally issued or released to the member); and/or
- (c) no transfer of any certificated relevant shares shall be registered unless the transfer is an approved transfer (as defined in the Articles) or:
 - (i) the member is not himself in default as regards supplying the information required; and
 - (ii) the transfer is of part only of the member's holding and, when presented for registration, is accompanied by a certificate from the member in form and substance satisfactory to the board to the effect that, after due and careful enquiry, the member is satisfied that none of the shares comprised in the transfer is a default share.

5.2.7 *Dividend in specie*

A liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the 2006 Act, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

5.2.8 *Pre-emption rights*

There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares. In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the 2006 Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

5.2.9 *Borrowing powers*

Subject to the Articles and the 2006 Act, the Board may exercise all the powers of the Company to borrow money and to mortgage, charge or grant any security over all or any part of the undertaking, property, assets (present and future) and uncalled capital of the Company, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

5.2.10 *Annual General Meeting*

An annual general meeting is to be held once every year at such time, date and place as may be determined by the Board. Annual general meetings should be held within a period of not more than 15 months after the holding of the last preceding annual general

meeting. Annual general meetings are called on 21 clear days notice in writing. The annual general meeting may be called on shorter notice providing all members entitled to attend and vote thereat agree. The Company may specify in the notice of meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered into the register in order to have the right to attend or vote at the meeting.

5.2.11 *General Meetings*

General meetings may be called whenever the directors think fit or when one has been requisitioned in accordance with the 2006 Act. A general meeting at which it is proposed to pass a special resolution or a resolution of which special notice has been given to the Company shall be called on 21 clear days' notice in writing. Any other general meetings are to be called on 14 clear days' notice in writing. A general meeting can be called on shorter notice if a majority in number of the members having a right to attend and vote at the extraordinary general meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, consent. Two members present in person or by proxy and entitled to vote shall be a quorum for all purposes.

5.2.12 *Directors*

Save as provided in the Articles, a director shall not vote as a director in respect of any contract, transaction or arrangement or any other proposal whatsoever in which he has any interest which (together with any interest of any person connected with him) is to his knowledge a material interest (otherwise than by virtue of an interest in shares, debentures or other securities of or otherwise in or through the Company). A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is not entitled to vote.

A director shall (in the absence of some other material interest than is indicated below), subject to the 2006 Act, be entitled to vote (and be counted in the quorum) in respect of any resolution relating to any of the following matters namely:

- (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings; or
- (b) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security; or
- (c) any contract, arrangement, transaction or other proposal concerning an offer of shares, debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is, or may be, entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (d) any contract, arrangement, transaction or other proposal to which the Company is or is to be a party concerning any other body corporate (including a subsidiary undertaking of the Company) in which he or any persons connected with him do not to his knowledge, directly or indirectly, hold an interest in shares (as that term is used in sections 820 to 825 of the 2006 Act) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such body corporate;
- (e) any contract, arrangement, transaction or other proposal concerning in any way a pension, retirement, superannuation, death and/or disability benefits scheme or fund or employees' share scheme under which he may benefit and which either:
 - (i) has been approved, or is conditional upon approval, by HM Revenue and Customs for taxation purposes; or

- (ii) relates both to employees and directors of the Company (or any of its subsidiary undertakings) and does not award him any privilege or benefit not generally awarded to the employees to whom such scheme or fund relates; and
- (f) any contract or other proposal concerning the giving to him of any indemnity pursuant to the Articles or concerning any insurance which the Company is empowered to purchase and/or maintain for or for the benefit of any directors or for persons including directors

Any Director who performs services which in the opinion of the Directors go beyond the ordinary duties of a director, may be paid such additional remuneration as the Directors or any committee authorised by the Directors may determine.

The Directors shall be entitled to be paid their reasonable travelling, hotel and other expenses incurred by them in connection travelling to and from meetings of the Directors, committee meetings or general meetings or otherwise properly and reasonably incurred by them in or in connection with or about the business of the Company. Subject to the 2006 Act a Director may:

- (a) enter into or otherwise be interested in a contract, arrangement, transaction or proposal with the Company or in which the Company is in any way interested whether directly or indirectly;
- (b) also hold another office or employment with the Company or any other undertaking in which the Company is in any way interested (other than the office of auditor) in conjunction with the office of director and may act by himself or through his firm in a professional capacity for the Company or any such other undertaking, and in that case on such terms as to remuneration and otherwise as the Board may decide either in addition to or instead of remuneration provided for by another provision of the Articles;
- (c) become a director or other officer of, or employed by, or a party to a contract, arrangement, transaction or proposal with or otherwise interested in, any undertaking promoted by the Company or in which the Company is otherwise interested or as regards which the Company has a power of appointment.

A Director shall not (unless otherwise agreed) be liable to account to the Company for any profit, remuneration or other benefit realised by such office, employment, contract, arrangement, transaction or proposal and no such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.

At each annual general meeting any Director appointed by the Board since the last annual general meeting of the Company, either to fill a casual vacancy or as an additional Director, and one-third of the other Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to, but (except where less than three Directors are subject to retirement by rotation) not greater than one-third) shall retire from office. No Director shall continue to hold office as a Director after the third annual general meeting following his election or re-election, as the case may be, without submitting himself for re-election at the said third annual general meeting.

The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment. A retiring Director shall be eligible for re-election.

The Board may from time to time appoint any one or more Directors to be the holder of any executive office (including, where considered appropriate, the office of chairman or deputy chairman or chief executive officer or managing or joint managing or deputy or assistant managing director but excluding that of auditor) on such terms and for such period as it may (subject to the 2006 Act and the requirements of the UK Listing Authority) determine. Subject to the 2006 Act, the Board may enter into an agreement or arrangement with any Director for his employment by the Company or for the provision by him of any services outside the scope of the ordinary duties of a Director. No Director shall vacate his office at any time by reason of the fact that he has attained the age of seventy or any other age.

There are no provisions of the Company's Articles that would have an effect of delaying, deferring or preventing a change in control of the issuer.

5.2.13 ***Mandatory bids, squeeze-out and sell-out rules relating to the Ordinary Shares***

Although not part of the Company's Articles, the following regulations also apply to the Company:

(a) *Mandatory bid*

The City Code applies to the Company. Under the City Code, if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquiror and its concert parties to shares carrying 30 per cent. or more of the voting rights in the Company, the acquiror and, depending on the circumstances, its concert parties, would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for the Ordinary Shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of shares by a person holding (together with its concert parties) shares carrying between 30 and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

(b) *Squeeze-out*

Under the 2006 Act, if an offeror were to acquire 90 per cent. of the Ordinary Shares within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are compulsorily acquired under the 2006 Act must, in general, be the same as the consideration that was available under the takeover offer.

(c) *Sell-out*

The 2006 Act also gives minority shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares, any holder of shares to which the offer relates who has not accepted the offer can by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises its rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

6. Directors of the Company

6.1 Details of the Directors, their business address and their functions in the Company are set out on page 10 of this document under the heading “Directors, Secretary and Advisers”. Each of the Directors can be contacted at the principal place of business of the Company at Level 5/6, The Exchange Building, 142 St Vincent Street, Glasgow G2 5LA.

6.2 The Directors (in addition to their directorships of the Company) are or have been a member of the administrative, management or supervisory bodies, or directors or partners of the following companies or partnerships within the five years prior to the publication of this document:

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Stephen Paul Timoney	UK Gas Connection Limited FM Assets Limited TF Real Estate Limited UK MeterAssets Limited SMS (IP) Limited UKME (IP) Limited UK Data Management Limited	Kickoff Growth Limited Meter Sense Limited Allco Meters MAP Limited EVS Systems Limited Allco Meters MAM Limited Timoney Foy Limited
Alan Henry Foy	TF Real Estate Limited UK Gas Connection Limited UK Meter Assets Limited FM Assets Limited SMS (IP) Limited UKME (IP) Limited UK Data Management Limited	Kickoff Growth Limited Meter Sense Limited Allco Meters Management Limited Timoney Foy Limited
Kevin John Lyon	Mono Global Limited Mono Global Group Limited Valiant Petroleum plc David Lloyd Leisure Operations Holdings Limited Bezier Acquisitions Limited	3i plc Giant Topco Limited Craneware plc Lear Acquisitions Limited Lear Holdings Limited Northworld Limited Wyndeham Press Group Limited Booker Group plc Visual Communications Group Limited Julian Graves Limited David Lloyd Leisure Property Holdings No.1 Limited Bostin’ Value Limited Kearney Properties Limited Cameron Topco Limited Lear Trustees Limited Northworld Investments Limited Daybreak Acquisitions Limited Daybreak Holdco Limited Daybreak Midco Limited WOC Realisations Limited BCC Realisations Limited Walstead Investments Limited Southernprint (Holdings) Limited MK One Limited

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
		Barney Holdings Limited Pyle Limited Java Acquisitions Limited Whittard and Company Limited SW10 Acquisitions Limited RBG (Holdings) Limited
Nigel Bryan Christie	RP&C International Limited Maple Energy plc Lottery Dynamics Corp. (USA) Integrated Group Assets Inc. (USA) Texas Star Petroleum, LLC (private and dormant) Catcando Properties Limited	Van Dieman Mines Plc

6.3 As at the date of this document, none of the Directors has:

- 6.3.1 any unspent convictions in relation to fraudulent offences or unspent convictions in relation to indictable offences;
 - 6.3.2 been declared bankrupt or been subject to any individual voluntary arrangement;
 - 6.3.3 save as set out at paragraphs 6.4 to 6.7 below, been a director of any company or been a member of the administrative, management or supervisory body of an issuer or a senior manager of an issuer which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was acting in that capacity for that company or within the 12 months after he ceased to be so acting;
 - 6.3.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or partnership voluntary arrangement whilst he was a partner of that partnership or within 12 months after he ceased to be a partner in that partnership;
 - 6.3.5 been the owner of any asset placed in receivership or been a partner in any partnership which had an asset placed in receivership whilst he was a partner of that partnership or within the 12 months after he ceased to be a partner of that partnership; or
 - 6.3.6 been subject to any public criticisms by any statutory or regulatory authorities (including recognised professional bodies) or been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.
- 6.4 Kevin Lyon was appointed to the Board of Incline Global Technology Services Limited ("Incline") in May 2005 by the main lender and majority shareholder to lead a sale of the company, which was significantly underperforming. To achieve maximum value Incline sold some divisions and subsidiaries but the holding company was also ultimately placed into administration 7 September 2005.
- 6.5 Kevin Lyon was a director of MK One Limited and related group companies (Lear Holdings Limited, Lear Acquisitions Limited, Lear Trustees Limited, Northworld Limited, Northworld Investments Limited). He oversaw the sale of MK One Limited to Hilco Limited in May 2008 and despite assurances received that the whole group would be traded for the foreseeable future, the company was subsequently put through a creditor's voluntary liquidation by the new owners as part of a restructuring.

- 6.6 Kevin Lyon was a director of Whittard and Company Limited and related group companies (Whittard of Chelsea Limited, Pyle Limited and Boaters Coffee Co. Limited). This company ultimately was owned by certain Icelandic organisations and suffered as a result of the Icelandic banking collapse in 2008. The failure of the company shareholders and Icelandic banks led to a withdrawal of all support and funding facilities necessitating a distressed sales process. To effect a sale of the trading activities to EPIC Private Equity the business was put into administration on 23 December 2008 by Landsbanki.
- 6.7 Nigel Christie was a director of Van Dieman Mines Plc (“Van Dieman”) from 15 February 2008 until the company was dissolved on 14 July 2010. Mr Christie was appointed as a director of the already poorly performing Van Dieman followed by the resignation of a number of the pre-existing board. Mr Christie and the other members of the reconstituted board were successful in negotiating a re-financing with one of the major shareholders of Van Dieman in an effort to provide sufficient working capital to transform Van Dieman into an economically viable business. Unfortunately, this was ultimately unsuccessful and liquidators were appointed to compulsorily liquidate the company in August 2009.
- 6.8 Save as disclosed in this document, none of the Directors have been interested, whether directly or indirectly, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group taken as a whole and which was effected by the Group and remains in any respect outstanding or unperformed.
- 6.9 Save as otherwise disclosed in this document, no Director has or has had any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to the Group or which are proposed to be acquired by, disposed of by, or leased to the Group.
- 6.10 Save as disclosed in paragraphs 7 and 13 of this Part VII, there are no contracts, existing or proposed, between any Director and the Company.
- 6.11 In the case of those Directors who have roles as directors of companies other than the Company, although there are no current conflicts of interest, it is possible that the fiduciary and statutory duties owed by those Directors to companies of which they are directors from time to time may give rise to conflicts of interest with the duties owed to the Company.
- 6.12 There are no potential conflicts of interest between the duties owed by the Directors to the Company and their duties to third parties.

7. Directors’ Service Agreements and Letters of Appointment

The following agreements have been entered into between the Directors and the Company:

7.1 *Kevin Lyon*

Kevin Lyon was appointed on 1 May 2011 and his services as Non-Executive Chairman to the Company are procured by a letter of appointment dated 16 May 2011. The initial term is for three years and is terminable at any time on either party giving the other party at least three months’ prior notice. The appointment is subject to the Articles of the Company. The annual fee receivable under this arrangement is £75,000 and is subject to annual review by the Board. The office of Non-Executive Chairman is non-pensionable and includes an entitlement to participate in the share option arrangements relating to the Company’s shares but not to participate in any employee benefits.

7.2 *Stephen Timoney*

Stephen Timoney was appointed on 24 December 2009 and his services as Director and Deputy Chairman to the Company are provided to the Company on a part-time basis pursuant to a service agreement dated 20 June 2011. The employment is a continuous period of employment terminable at any time on either party giving the other party at least six months’ prior notice. Mr Timoney does not draw a salary. The Company provides private health care for the executive and his family. In addition to public holidays there is an entitlement to 2 days of unpaid holidays per year.

7.3 ***Alan Foy***

Alan Foy was appointed on 24 December 2009 and his services as Executive Director and Chief Executive Officer to the Company are provided to the Company pursuant to a services agreement dated 20 June 2011. UKGC meets the payments due to this executive under the service agreement. The employment is a continuous period of employment terminable at any time on either party giving the other party at least six months' prior notice. The basic salary of £250,000 per annum is payable monthly and is reviewed by the remuneration committee from time to time. During each year of the employment, the Company shall contribute an amount equal to 5 per cent. of the executive's basic salary to the executive's nominated personal pension scheme. The Company provides private health care for the executive and his family. The Company may also provide access to a permanent health insurance scheme at the Company's expense. In addition to public holidays there is an entitlement to 30 days of paid holidays per year.

7.4 ***Glen Murray***

Glen Murray was appointed on 1 January 2011 and his services as Director and Finance Director to the Company are provided to the Company pursuant to a service agreement dated 20 June 2011. UKGC meets the payments due to this executive under the service agreement. The employment is a continuous period of employment terminable at any time on either party giving the other party at least six months' prior notice. The basic salary of £70,000 per annum is payable monthly and is reviewed by the remuneration committee from time to time. The Company shall provide access to a designated stakeholder pension scheme and matches any payments made up to 5 per cent. of the executive's basic salary. The Company provides private health care for the executive and his family. The Company may also provide access to a permanent health insurance scheme at the Company's expense. In addition to public holidays there is an entitlement to 30 days of paid holidays per year.

7.5 ***Nigel Christie***

Nigel Christie was appointed on 1 May 2011 and his services as Non-Executive Director to the Company are procured by a letter of appointment dated 16 May 2011. The initial term is for three years and is terminable at any time on either party giving the other party at least three months' prior notice. The appointment is subject to the Articles of the Company. The annual fee receivable under this arrangement is £48,000 and is subject to annual review by the Board. The office of Non-Executive Director is non-pensionable and includes an entitlement to participate in the share option arrangements relating to the Company's shares but not to participate in any employee benefits.

7.6 The aggregate estimated remuneration and benefits in kind paid or payable to the Directors by any company in the Group for the current financial year under the arrangements that are in force and that will come into effect on Admission will amount to approximately £443,000.

7.7 Save as specified in this paragraph 7, there are no existing or proposed service agreements, consultancy agreements or letters of appointment between any of the Directors and any member of the Group which provide benefits upon termination of employment or otherwise.

7.8 No amount has been set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors.

8. Directors' Shareholdings and Other Interests

8.1 The interests (within the meaning of Sections 820-825 (inclusive) of the 2006 Act) of the Directors and (so far as is known to the Directors having made appropriate enquiries) persons connected with them (which expression shall be construed in accordance with the AIM Rules)

(all of which are beneficial except as shown below) in the existing share capital of the Company as at 23 June 2011, being the last practicable date prior to the publication of this document, and as expected to be immediately following Admission, are as follows:

<i>Name</i>	<i>Number of Ordinary Shares held at the latest practicable date prior to publication</i>	<i>Percentage of existing share capital (%)</i>	<i>Number of Ordinary Shares held immediately following Admission</i>	<i>Percentage of share capital immediately following Admission (%)</i>
Kevin Lyon	—	—	125,000	0.15
Stephen Timoney	50,004,810	75	25,004,810	30
Alan Foy	16,668,270	25	13,334,937	16
Glen Murray	—	—	—	—
Nigel Christie	—	—	80,000	0.10

It is proposed that on Admission Stephen Timoney will dispose of 25,000,000 Ordinary Shares and Alan Foy will dispose of 3,333,333 Ordinary Shares.

Nigel Christie will hold his shares through his self insured pension plan.

- 8.2 On Admission, or shortly thereafter if formal approval of the Company Share Option Plan has not been obtained before Admission, the Directors and (so far as is known to the Directors having made appropriate enquiries) persons connected with them (which expression shall be construed in accordance with the AIM Rules) will have the following options over Ordinary Shares:

<i>Name</i>	<i>Date of Grant</i>	<i>Type of Share Option</i>	<i>Number of Shares</i>	<i>Exercise Price</i>
Kevin Lyon	20 June 2011	Unapproved	437,500	60p
Nigel Christie	20 June 2011	Unapproved	280,000	60p
Glen Murray	To be granted	Approved	shares to the value of £30,000 as at the date of grant	market value at date of grant
Glen Murray	20 June 2011	Unapproved	666,667	60p

- 8.3 Save as disclosed in this document, none of the Directors has any interest, whether beneficial or non-beneficial, in the issued share capital or loan capital of any member of the Group and nor do (so far as is known to the Directors having made appropriate enquiries) persons connected with them (which expression shall be construed in accordance with the AIM Rules).
- 8.4 There are no outstanding loans granted by any member of the Group to any of the Directors and there are no guarantees provided by any member of the Group for the benefit of any of the Directors.
- 8.5 No Director or any member of his family nor any person connected with him has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares being admitted.
- 8.6 Details of any restrictions agreed by the Directors with regard to the disposal of their holdings in the Company's securities are set out in paragraph 13.3 of this Part VII of the document.

9. Employees

- 9.1 As at the date of this document, other than the Directors, the Group has 40 employees (including the executive directors) all of whom (other than the Directors) are employed by UKGC, notwithstanding that their job description may refer to UKMA or UKDM.
- 9.2 The following persons are key employees of the Group (other than the Directors):

- 9.2.1 Bill Turner;
- 9.2.2 Andy Ritchie;

9.2.3 Claire Corrins; and

9.2.4 Bimal Kumar.

9.3 All of the employees (other than the Executive Directors who are employed by the Company) are employed by UKGC notwithstanding they provide services to UKMA and UKDM. Accordingly as at the date of this document, none of UKMA, UKDM, SMS (IP) has any employees.

9.4 Details of the Company's share incentive arrangements are set out at paragraph 15 of this Part VII of the document.

10. Related Party Transactions

10.1 Save for the transactions described in note 21 of the Historical Information set out in Part IV of this document and the agreements referred to in paragraph 13 (Material Contracts of the Group) of this Part VII below, during the period of two years immediately preceding the date of this document, none of the members of the Group have entered into any related party transactions.

11. Significant Shareholdings

11.1 As at 23 June 2011, the latest practicable date prior to the publication of this document, save for the interests of the Directors and their immediate families and persons connected with them as set out in paragraph 8.1 of this Part VII, the Directors are not aware of any persons who, directly or indirectly, jointly or severally, have an interest of three per cent. or more in the Company's issued share capital or voting rights or exercise or could exercise control over the Company.

11.2 Save as disclosed in paragraphs 11.1 of this Part VII, the Directors are not aware of any person who either at the date of this document or immediately following Admission, exercises or could exercise, directly or indirectly, jointly or severally, control over the Company.

11.3 As at 23 June 2011, the latest practicable date prior to the publication of this document, the Directors are not aware of any arrangements in place or under negotiation the operation of which may, at a subsequent date, result in a change of control of the Company.

11.4 No holder of Ordinary Shares, including those listed above, has voting rights which are different from the other holders of Ordinary Shares (issued or to be issued).

12. Principal Investments

Other than as disclosed in this document, the Company does not have, nor are there in progress or under consideration by the Company, any significant investments.

13. Material Contracts of the Group

The following material contracts are those contracts which have been entered into by a member of the Group (a) in the two years immediately preceding the date of this document (other than in the ordinary course of business); (b) which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document (other than those entered into in the ordinary course of business):

13.1 *Nominated Adviser and Broker Letter*

Pursuant to a letter (the "**Nominated Adviser and Broker Letter**") from Cenkos Securities plc ("**Cenkos**") to the Company dated 20 June 2011 and countersigned by the Company on 20 June 2011, the Company has appointed Cenkos to act as nominated adviser and Broker to the Company for the purposes of the AIM Rules and NOMAD Rules, with effect from the date of the letter. The appointment is to continue until terminated by either the Company or Cenkos giving not less than 3 months' prior written notice (or at any time by written notice of either Cenkos or the Company if certain material breaches are not remedied within 5 business days of written request). The Company has agreed to pay Cenkos a fee of £60,000 (plus VAT and expenses) payable in two instalments six months in advance.

The Company is responsible under the Nominated Adviser and Broker Letter for, *inter alia*, informing Cenkos of all material changes in the financial or trading position of the Company and complying at all times with the FSMA and the Prospectus Rules, the AIM Rules and other requirements of the London Stock Exchange in relation to AIM companies generally or the Company specifically, the 2006 Act, the City Code, Chapter Five of the FSA's Disclosure and Transparency Rules and any other requirements (statutory or otherwise) and any other financial markets' rules and regulations as shall apply to the Company.

13.2 **Placing Agreement**

A placing agreement dated 23 June 2011 between the Company, the Directors, and Cenkos was entered into pursuant to which Cenkos has been appointed, as the Company's nominated adviser, to make an application for Admission and Cenkos has agreed to use its reasonable endeavours to procure (conditional on Admission taking place on or before 8 July 2011 (or such later date to be agreed by the parties, but in no event being later than 15 July 2011)) subscribers for the New Ordinary Shares at the Placing Price. The Company has agreed to pay to Cenkos a fee of £250,000 and commission of 5 per cent. on the value of the New Ordinary Shares issued pursuant to the Placing at the Placing Price. Under the terms of the Placing Agreement, the Company and the Directors have given certain customary warranties to Cenkos and the Company has given certain customary indemnities and undertakings to Cenkos in connection with the Placing and other matters relating to the Company and its affairs.

Cenkos may terminate the Placing Agreement in certain specified circumstances prior to Admission, principally if any of the warranties has ceased to be true and accurate or shall have become misleading in any respect or in the event of circumstances existing which make it impracticable or inadvisable to proceed with the Placing.

13.3 **Lock-in Agreement**

A Lock-in Agreement dated 20 June 2011 has been entered into by Alan Foy and Stephen Timoney (the "**Locked-In Management**") with each of the Company and Cenkos pursuant to which each of the Locked-In Management has agreed not to dispose of any of their interests in Ordinary Shares prior to the first anniversary of Admission, and thereafter for the following 12 months only to dispose of them through the Company's brokers at the relevant time and having given prior written notice to Cenkos (or its successor as nominated adviser to the Company at the relevant time).

13.4 **Relationship Agreements**

Relationship Agreements dated 20 June 2011 (the "**Relationship Agreements**") have been entered into by Stephen Timoney and Alan Foy pursuant to which Mr Timoney and Mr Foy have, *inter alia*, separately undertaken to exercise at all times the voting rights attached to the Ordinary Shares held by them so as to procure insofar as they are able to do so by the exercise of those rights that the Company is capable at all times of carrying on business and making decisions independently of Mr Timoney and any Connected Persons and Mr Foy and any Connected Persons. For the purposes of the Relationship Agreement "**Connected Persons**" has the meaning ascribed to it in section 252 of the 2006 Act.

The Relationship Agreement to be entered into between Stephen Timoney and the Company will continue in effect until such time as Mr Timoney's shareholding falls below 25 per cent. of the total issued Ordinary Shares. The Relationship Agreement to be entered into between Alan Foy and the Company will continue in effect for one year from the date of Admission.

13.5 **Intellectual Property Assignations**

Assignations of Intellectual Property, each dated 31 May 2011, have been entered into between SMS IP and each of the Company, UKDM, UKMA and UKGC (the "**Assignors**") pursuant to which the Assignors assigned, in consideration of the sum of £1, with effect from 31 May 2011 to SMS IP all Intellectual Property Rights (as defined in the Assignations). In addition all Intellectual Property Rights created by or on behalf of the Assignor after the date of the Assignation are on their creation to be owned by and vest solely in SMS IP.

13.6 *Licence of Intellectual Property Rights*

Licences of Intellectual Property Rights dated 31 May 2011 has been entered into between SMS IP and each of the Company, UKMA, UKGC and UKDM (the “**Licensees**”) pursuant to which SMS IP granted to each of the licensees a world wide, perpetual, non-exclusive, royalty-free licence of the Intellectual Property Rights (as defined in the Licence) for the purpose of allowing the Licensees to carry on their business activities. The Parties acknowledged that they may agree to amend the License such that the Licensee is liable to pay the Licensor a royalty in the future. The Licence may be terminated if the Licensee commits a material breach, if an order is made for the winding up of any of the Licensee, or by either Party on the giving of three months written notice to the other party.

13.7 *Facility Agreement*

Pursuant to a facility agreement (the “**Facility Agreement**”) between UKMA and Clydesdale Bank plc (the “**Bank**”) dated 24 September 2010 the Bank agreed to provide the following facilities to the Group (a) a master lease facility of £12,000,000; (b) a term loan of £500,000 and (c) an overdraft of £500,000. The overdraft has now been cancelled. Pursuant to the Facility Agreement a Master Lease Agreement and a Term Loan Agreement were in put in place between UKMA and the Bank, each also dated 24 September 2010.

13.7.1 *Master Lease Agreement*

The Master Lease provides provision for ongoing financing of assets by the Bank and potentially other funders. Around 24 September 2010 the Bank purchased a number of meter assets from UKMA which were then leased back to UKMA. The master lease has a term of 10 years.

Pursuant to the terms of the Master Lease Agreement, UKMA paid an arrangement fee and pays an annual monitoring fee (payable quarterly in arrears). It is provided under the Master Lease Agreement that rental will be paid in instalments and on the dates specified in each relevant lease agreement. The lease facility is structured as a syndicated arrangement which potentially allows other funders to join the facility with relative ease and provide funding to UKMA.

13.7.2 *Term Loan Agreement*

The term loan was provided for UKMA’s general business purposes. It is repayable with interest in instalments and expires on 30 September 2015.

13.7.3 *Security Arrangements*

As security for their obligations to the Bank, UKMA and the Group Companies have granted the following security:

- (a) Guarantees: UKSMG, UKGC and UKDM have guaranteed the obligations of UKMA to the Bank (as Security Trustee).
- (b) Floating Charges: UKMA, UKGC and UKDM have entered into a composite floating charge in favour of the Bank (as Security Trustee), under which a floating charge is granted over the whole of the property and assets of each of their assets.
- (c) Deed of Assignment: UKMA has assigned to the Bank, as Security Trustee, all of UKMA’s title, rights and interest in and to goods and contracts for gas metering services.
- (d) Account Assignment: An account assignment under which UKMA assigns to the Bank, as Security Trustee, UKMA’s rights and interests to the bank account with the Bank specified in the account assignment and the credit balance on that account.

13.7.4 *Ranking*

Ranking Agreements are in place between UKMA, UKGC, the Bank (in their capacity as Security Trustee) and the Bank (in their individual capacity). The Ranking Agreements rank floating charges in favour of the Bank (in their individual capacity) ahead of floating charges in favour of the Bank (in their capacity as Security Trustee).

14. **Litigation**

No member of the Group is or has been engaged in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which have had or may have a significant effect on the Group's financial position or profitability during the twelve months preceding the date of this document and so far as the Directors are aware, there are no such proceedings pending or threatened by or against any member of the Group.

15. **Share Schemes**

The Company has adopted (a) the Share Incentive Plan, (b) the Company Share Option Plan and (c) the Unapproved Share Option Plan, details of which are set out below in this paragraph 15.

15.1 ***Share Incentive Plan***

The Company adopted a share incentive plan named the Smart Metering Systems Share Incentive Plan (the "**SIP**") on 20 June 2011, which satisfies the provisions of schedule 2 to the Income Tax (Earnings and Pensions) Act 2003 and aims to promote employee ownership of shares in a tax efficient manner. All shares allotted pursuant to the SIP must be held for a minimum of five years to obtain full tax advantage. Application has been made to HM Revenue & Customs for the SIP to be informally approved. The principal provisions of the SIP are as follows:

15.1.1 *Shares to be Held on Trust*

The Ordinary Shares which are subject to the SIP are to be held on trust and are subject to the terms of the SIP rules (the "**SIP Rules**").

15.1.2 *Eligibility*

A person is eligible either to appropriate or acquire shares (as the case may be) under the SIP provided:

- (a) he is an employee of the Company or certain of the Company's subsidiaries (a "**Participating Company**");
- (b) he has been an employee of a Qualifying Company (as defined in schedule 2 to ITEPA) (the "**Schedule**") at all times during any Qualifying Period (as defined in the SIP Rules); and
- (c) he does not fail to be eligible to participate under the SIP for any of the reasons contained in the SIP Rules and he continues to satisfy each of these conditions on the date set out in paragraph 14(1) of the Schedule.

Any individual who is an employee of a Participating Company and is a UK resident taxpayer within the meaning of the Schedule is eligible to participate in the SIP and must be invited to participate in any award under the SIP. Any such employee who is not a UK resident taxpayer may be invited to participate in an award at the discretion of the Company (together a "**Qualifying Employee**").

15.1.3 *Free Shares*

The trustee may from time to time award free shares to Qualifying Employees. The number of shares to be awarded to Qualifying Employees shall be determined by the Company. The Company may stipulate that the number of free shares to be awarded to

each Qualifying Employee on a given award date shall be determined by reference to certain performance targets being met. Where such performance targets are stipulated to apply they must apply to all Qualifying Employees.

In relation to each award of free shares the Company shall specify a period (the “**Holding Period**”) during which a Qualifying Employee agrees to abide by the terms of the free share agreement, including the obligation to leave the free shares in the hands of the trustees and, except in certain limited circumstances, not to assign, charge or otherwise dispose of his beneficial interest in the free shares.

The Qualifying Employee also agrees that he will lose his free shares if he ceases to be employed by the Company or any associated company (as defined in the Schedule) during the Holding Period, except in certain circumstances. The Holding Period must be for a period of not less than three and not more than five years from the date of the award.

The obligations of the Qualifying Employee with respect to the Holding Period of the free shares will cease if he ceases to be employed by the Company or any associated company (as defined in the Schedule) (although he may be required to forfeit his free shares), or if the Company terminates the plan in accordance with the SIP Rules and the Qualifying Employee has consented to the transfer of the shares to him.

15.1.4 *Partnership Shares*

A Qualifying Employee may be invited to enter into a partnership share agreement with the Company. The invitation will specify whether the Company will offer matching shares to Qualifying Employees who enter into a partnership share agreement, the basis on which such matching shares will be appropriated, any forfeiture provisions attaching to such matching shares and the starting date and length of the period during which the trustee shall accumulate money deducted from a Qualifying Employee’s salary (“**Partnership Money**”) to acquire partnership shares before he acquires such shares, being no longer than 12 months from the date of the first deduction (the “**Accumulation Period**”).

Matching shares are shares which are of the same class as the partnership shares to which they relate and are offered on the basis of a ratio of matching shares to partnership shares not to exceed 2:1.

The Company can specify the maximum number of shares to be included in an award of partnership shares. If the Company receives applications for partnership shares exceeding the award maximum then it will take various steps as set out in the SIP Rules to scale down the applications until the excess is eliminated.

The amount of salary to be deducted from the salary of a Qualifying Employee in respect of partnership shares shall not exceed the lower of £1,500 per tax year and 10 per cent of the Qualifying Employee’s salary for the tax year or such amount as may be specified in the Schedule from time to time. The minimum amount of deductions is £10 or less.

Where there is no Accumulation Period the trustee shall acquire partnership shares on behalf of the Qualifying Employee within 30 days of the deduction from salary being made. The number of shares awarded to each Qualifying Employee in such circumstances shall be determined in accordance with the market value of the shares on the date of acquisition. The market value shall be calculated in accordance with the SIP Rules (the “**Market Value**”).

Where there is an Accumulation Period, the trustee will buy the partnership shares on behalf of the Qualifying Employee at the end of the Accumulation Period. The number of shares to be acquired in these circumstances will be the lower of the market value of the shares at the beginning of the Accumulation Period and the market value of the shares on the date of acquisition.

There is no Holding Period in respect of partnership shares. A Qualifying Employee may withdraw from the partnership share agreement at any time by notice in writing to the Company, which will take effect 30 days from receipt. A Qualifying Employee may withdraw any or all of his partnership shares from the SIP at any time. The trustees shall, within 30 days of such direction, transfer the partnership shares to the Qualifying Employee, subject to the withholding of any amount necessary to meet any PAYE and national insurance contributions liability arising on such transfer.

If the SIP is withdrawn or terminated any Partnership Money will be repaid as soon as practicable subject to the deduction of any amount necessary to meet PAYE and NIC liability arising on the repayment of Partnership Money.

The Qualifying Employee agrees that no voting rights will attach to any partnership shares or dividend shares acquired on his behalf or any matching shares whilst they remain subject to the SIP.

15.1.5 *Matching Shares*

In relation to each award of matching shares the Company shall specify a Holding Period during which a Qualifying Employee agrees to abide by the terms of the partnership share agreement, including the obligation to leave the matching shares in the hands of the trustees and, except in certain limited circumstances, not to assign, charge or otherwise dispose of his beneficial interest in the free shares, which can be no longer than five years from the award date. The Holding Period must end no earlier than the third anniversary of the award date and no later than the fifth anniversary.

The Qualifying Employee also agrees that he will lose his matching shares if he ceases to be employed by the Company or any associated company (as defined in the Schedule) during the Holding Period, except in certain circumstances or if he withdraws his partnership shares to which the matching shares relate within three years from the date of acquisition of the partnership shares.

The obligations of the Qualifying Employee with respect to the Holding Period of the matching shares will cease if he ceases to be employed by the Company or any associated company (as defined in the Schedule) (although he may be required to forfeit his free shares), or if the Company terminates the plan in accordance with the SIP Rules and the Qualifying Employee has consented to the transfer of the shares to him.

15.1.6 *Dividend Shares*

The Company may direct that any cash dividend in respect of any shares held on behalf of Qualifying Employees pursuant to the SIP ("**Plan Shares**") may be applied in acquiring further Plan Shares. The Company may decide to apply all Qualifying Employees' dividends up to £1,500 per tax year in acquiring dividend shares or to pay all dividends in cash or to offer Qualifying Employee a choice of the above two options.

The trustee shall apply all cash dividends to acquire ordinary shares on behalf of the Qualifying Employee on the acquisition date. The number of dividend shares acquired shall be determined by the Market Value of the ordinary shares on the acquisition date. This obligation may be revoked by the Company.

If an amount is not reinvested because the amount of cash dividend is insufficient to acquire an ordinary share or because there is an amount remaining after acquiring the dividend shares (subject to a limit of £1,500 per tax year) that amount may be retained by the trustee and carried forward to be added to the amount of the next cash dividend to be reinvested. Any amount received in excess of £1,500 per tax year must be paid to the Qualifying Employee.

If during the three years beginning on the date on which the dividend was paid, it is not reinvested or the Qualifying Employee ceases to be employed by the Company or any associated company (as defined in the Schedule) or a plan termination notice (as defined in the Schedule) is issued, the amount shall be repaid to the Qualifying Employee.

A Holding Period of three years from the date of acquisition of the dividend shares shall apply to the dividend shares. The obligations of the Qualifying Employee with respect to the Holding Period of the dividend shares will cease if he ceases to be employed by the Company or any associated company (as defined in the Schedule) or if the Company terminates the plan in accordance with the SIP Rules and the Qualifying Employee has consented to the transfer of the shares to him.

15.2 *Company Share Option Plan*

The Company has adopted a company share option plan named the Smart Metering Systems Company Share Option Plan (the “**CSOP**”) on 20 June 2011. The CSOP has been informally approved by HM Revenue & Customs. The principal provisions of the CSOP are as follows:

15.2.1 *Participation*

Options may be granted under the CSOP to “**Eligible Employees**”, being:

- (a) any employee who is a director of any member of the Group and required under his contract of employment to work for not less than 25 hours per week; or
- (b) any other employee of any member of the Group.

15.2.2 *Grant of Options*

The Directors may grant Options to such Eligible Employees as they may select in their absolute discretion.

An Option may not be granted to any person at any time when he has, or has within the preceding 12 months had a Material Interest (as defined in the Rules of the CSOP) in the Company.

Options may only be granted:

- (a) before Ordinary Shares are admitted to trading on the Alternative Investment Market, at any time,
and thereafter:
- (b) during the period of 42 days following the date of notification to the London Stock Exchange of the annual or half yearly results of the Company;
- (c) within a period of 14 days immediately after the person to whom it is granted becomes an Executive; and
- (d) at any time but only if, in the opinion of the Directors, the circumstances are exceptional.

In addition no Option may be granted during a close period (as such term is defined in the AIM Rules).

15.2.3 *Exercise Price*

The Directors shall determine the price per share payable on the exercise of an Option (the “**Exercise Price**”).

The Exercise Price shall not be less than the market value of an Ordinary Share on the date of grant, and in the case of Ordinary Shares to be allotted on the exercise of an Option from the unissued ordinary share capital of the Company, not less than the higher of:

- (a) the market value of an Ordinary Share on that date; and
- (b) the nominal value of an Ordinary Share.

15.2.4 *Limits on the Grant of Options*

The aggregate number of Ordinary Shares in respect of which Options may be granted on a given day in any year, when added to the number of Ordinary Shares in respect of which rights to subscribe for unissued Ordinary Shares have been granted under the CSOP or any other employee share plan adopted by the Company in that year and the preceding nine years, shall not exceed ten per cent of the ordinary share capital of the Company.

The number of Ordinary Shares in respect of which an Option can be granted to an Eligible Employee is limited. The aggregate market value (for this purpose taken as the Exercise Price payable) of Ordinary Shares in respect of which unexercised Options can be held by an Eligible Employee at any time cannot exceed £30,000.

15.2.5 *Exercise of Options*

The Directors may impose one or more objective conditions on any Option preventing its exercise unless and until such condition has been satisfied. Such performance conditions will be determined by the Directors prior to the grant of the Option.

Except in certain specified circumstances, no Option will be exercisable within three years of its date of grant. In addition, no Option shall be exercisable during a close period (as such term is defined in the AIM Rules).

If an Optionholder dies his personal representatives may exercise his Option within the period of 12 months beginning with the date of his death. An Option may only be exercised to the extent that it was capable of exercise before the Optionholder died. If the Option is not so exercised it will lapse and cease to be exercisable at the end of that 12 month period.

If an Optionholder ceases to be an Eligible Employee by reason of:

- (a) injury, ill health or disability (evidenced to the satisfaction of the Directors); or
- (b) dismissal by reason of redundancy; or
- (c) retirement on or after age 55; or
- (d) the company with which he holds office or employment by virtue of which he is eligible to participate in the CSOP ceasing to be an associated company or a member of the same group of companies as the Company; or
- (e) the fact that the office or employment by virtue of which he is eligible to participate in the CSOP relates to a business or part of a business which is transferred to a company which is not an associated company or a member of the same group of companies as the Company,

then the Option may only be exercised within the period of six months beginning with the date the Optionholder so ceases to be an Eligible Employee. An Option may only be exercised to the extent that it was capable of exercise before the Optionholder so ceased to be an Eligible Employee. If the Option is not so exercised it will lapse and cease to be exercisable at the end of that six month period.

If the Optionholder ceases to be an Eligible Employee for any other reason, then any Option granted to such Optionholder shall immediately lapse and cease to be exercisable.

On the exercise of an Option, Ordinary Shares will be allotted and/or transferred within 30 days and where Ordinary Shares are issued they will rank equally in all respects with other Ordinary Shares in issue.

15.2.6 *Takeover and Winding Up*

In the event of a takeover of the Company, all outstanding Options may (irrespective of whether or not any performance conditions have been satisfied) be exercised at any time during the period of six months after the time when the offeror has obtained control of the Company and all conditions subject to which the offer is made have been satisfied. If not so exercised the Options shall lapse and cease to be exercisable at the end of the six month period.

In the event of a voluntary winding up of the Company, outstanding Options may (irrespective of whether or not any performance conditions have been satisfied) be exercised at any time during the period commencing on the date the notice is given and ending on the commencement of the winding up. If not so exercised the Options shall lapse and cease to be exercisable on the commencement of the winding up.

15.2.7 *Adjustment of Options*

In the event of any alteration in the ordinary share capital of the Company in consequence of a capitalisation or rights issue, sub division, consolidation or reduction or any other variation in the share capital of the Company, the number of shares subject to each Option and the Exercise Price may be adjusted in such manner as the Directors may consider appropriate subject to the written confirmation of the Company's auditors that in their opinion the adjustments proposed are fair and reasonable; provided (i) that no such adjustments shall be made without the prior approval of HM Revenue & Customs and (ii) that no adjustment shall be made to the Exercise Price which would result in such price being less than the nominal value of a share unless the Directors agree to capitalise the Company's reserves and apply the same at the time of the exercise of the Options in paying up the difference between the Exercise Price and the nominal value of the shares to be issued on the exercise of the Options.

15.2.8 *Amendments to the CSOP*

The Directors may at any time alter or add to the provisions of the CSOP; provided that (a) no such alteration to any provision which is necessary for the CSOP to meet the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 shall be made without the prior approval of HM Revenue & Customs and (b) certain alterations will require the prior approval of the shareholders in general meeting, unless such alterations are of a minor administrative nature in which case no such consent is required.

15.2.9 *Termination of Plan*

No Options may be granted under the CSOP after the tenth anniversary of the date on which the CSOP was adopted by the Company.

15.3 *Unapproved Share Option Plan*

The Company adopted an unapproved share option plan named the Smart Metering Systems Unapproved Share Option Plan (the “**Unapproved Plan**”) on 20 June 2011. The principal provisions of the Unapproved Plan are as follows:

15.3.1 *Participation*

Options may be granted under the Unapproved Plan to any employee or executive director of the Company or another group company (as defined in the Rules of the Unapproved Plan) who is required to devote substantially the whole of his time to his duties under his contract of employment (an “**Executive**”).

15.3.2 *Grant of Options*

The Directors may grant Options to such Executives as they may select in their absolute discretion.

However, Options may only be granted:

- (a) before Ordinary Shares are admitted to trading on AIM, at any time, and thereafter
- (b) during the period of 42 days following the date of notification to the London Stock Exchange of the annual or half yearly results of the Company;
- (c) within a period of 14 days immediately after the person to whom it is granted becomes an Executive; and
- (d) at any time but only if, in the opinion of the Directors, the circumstances are exceptional.

In addition no Option may be granted during a close period (as such term is defined in the AIM Rules).

15.3.3 *Exercise Price*

The Directors shall determine the price per share payable on the exercise of an Option (the “Exercise Price”).

The Exercise Price shall not be less than the market value of an Ordinary Share on the date of grant, and in the case of Ordinary Shares to be allotted on the exercise of an Option from the unissued ordinary share capital of the Company, not less than the higher of:

- (a) the market value of an Ordinary Share on that date; and
- (b) the nominal value of an Ordinary Share.

15.3.4 *Limit on the Grant of Options*

The aggregate number of Ordinary Shares in respect of which Options may be granted on a given day in any year, when added to the number of Ordinary Shares in respect of which rights to subscribe for unissued Ordinary Shares have been granted under the Unapproved Plan or any other employee share plan adopted by the Company in that year and the preceding nine years, shall not exceed ten per cent of the ordinary share capital of the Company.

15.3.5 *Exercise of Options*

The Directors may impose one or more objective conditions on any Option preventing its exercise unless and until such condition has been satisfied. Such performance conditions will be determined by the Directors prior to the grant of the Option.

Except in certain specified circumstances no Option will be exercisable within five years of its date of grant. In addition, no Option shall be exercisable during a close period (as such term is defined in the AIM Rules).

If an Optionholder ceases to be an Executive by reason of:

- (a) injury, ill health or disability (evidenced to the satisfaction of the Directors); or
- (b) death in service; or
- (c) retirement on or after age 55; or
- (d) the company with which he holds office or employment by virtue of which he is eligible to participate in the Unapproved Plan ceasing to be an associated company or a member of the same group of companies as the Company; or
- (e) the fact that the office or employment by virtue of which he is eligible to participate in the Unapproved Plan relates to a business or part of a business which is transferred to a company which is not an associated company or a member of the same group of companies as the Company,

then the Optionholder may retain the benefit of the Option and exercise it on or after the fifth anniversary of the date of grant. However, in these circumstances the Directors have discretion to allow the Optionholder to exercise an Option during a period (of not less than six months) beginning before the fifth anniversary of the date of grant.

An Option may only be exercised to the extent that it was capable of exercise before the Optionholder so ceased to be an Executive.

If the Optionholder ceases to be an Executive for any other reason, then any Option granted to such Optionholder shall immediately lapse and cease to be exercisable.

On the exercise of an Option, Ordinary Shares will be allotted and/or transferred within 30 days and where Ordinary Shares are issued they will rank equally in all respects with other Ordinary Shares in issue.

15.3.6 *Takeover and Winding Up*

In the event of a takeover of the Company, all outstanding Options may (irrespective of whether or not any performance conditions have been satisfied) be exercised at any time during the period of six months after the time when the offeror has obtained control of the Company and all conditions subject to which the offer is made have been satisfied. If not so exercised the Options shall lapse and cease to be exercisable at the end of the six month period.

In the event of a voluntary winding up of the Company, outstanding Options may (irrespective of whether or not any performance conditions have been satisfied) be exercised at any time during the period commencing on the date the notice is given and ending on the commencement of the winding up. If not so exercised the Options shall lapse and cease to be exercisable on the commencement of the winding up.

15.3.7 *Adjustment of Options*

In the event of any alteration in the ordinary share capital of the Company in consequence of a capitalisation or rights issue, sub division, consolidation or reduction or any other variation in the share capital of the Company, the number of shares subject to each Option and the Exercise Price may be adjusted in such manner as the Directors may consider appropriate subject to the written confirmation of the Company's auditors that in their opinion the adjustments proposed are fair and reasonable; provided that no adjustment shall be made to the Exercise Price which would result in such price being less than the nominal value of a share unless the Directors agree to capitalise the

Company's reserves and apply the same at the time of the exercise of the Options in paying up the difference between the Exercise Price and the nominal value of the shares to be issued on the exercise of the Options.

15.3.8 *Amendments to the Unapproved Plan*

The Directors may at any time alter or add to the provisions of the Unapproved Plan, provided that certain alterations will require the prior approval of the shareholders in general meeting, unless such alterations are of a minor administrative nature in which case no such consent is required.

15.3.9 *Termination of Plan*

No Options may be granted under the Unapproved Plan after the tenth anniversary of the date on which the Unapproved Plan was adopted by the Company.

15.4 ***Stand Alone Unapproved Share Options***

15.4.1 *Non-executive Directors*

The Share Options granted to the non-executive Directors are not subject to performance conditions.

However the Share Options will vest over a period of time as follows:

- (a) in respect of 50 per cent. of the Shares on the first anniversary of the date of grant; and
- (b) in respect of the remaining 50 per cent. of the Shares on the second anniversary of the date of grant.

If the non-executive Director ceases to hold office for any reason then:

- (a) the Share Option shall immediately lapse in respect of Shares which are not vested at the date of termination; and
- (b) the non-executive Director may retain the benefit of the Share Option in respect of Shares which are vested at the date of termination.

On a takeover the Share Option may be exercised in full irrespective of whether or not the Shares are vested.

15.4.2 *Bimal Kumar*

The Share Option granted to Bimal Kumar has been granted on terms similar to Share Options granted under the Unapproved Share Option Plan.

In particular:

- (a) the Share Option is subject to performance conditions;
- (b) in general, the Share Option may not be exercised before the fifth anniversary of the date of grant;
- (c) on termination of employment for certain specified reasons the benefit of the Share Option may be retained in respect of Shares which are vested at the date of termination, otherwise the Share Option will lapse; and
- (d) on a takeover the Share Option may be exercised in full irrespective of whether or not the Shares are vested.

16. Working Capital

The Directors are of the opinion, having made due and careful enquiry and taking into account the net proceeds of the Placing available to the Group and the Group's existing banking facilities, that the working capital available to the Company and the Group will be sufficient for its present requirements, that is, for at least twelve months from the date of Admission.

17. United Kingdom Taxation

The following summary, which is intended as a general guide only, outlines certain aspects of current UK tax legislation, and what is understood to be the current practice of HMRC in the United Kingdom regarding the ownership and disposal of ordinary shares

The Company is at the date of this document resident for tax purposes in the United Kingdom and the following is based on that status.

This summary is not a complete and exhaustive analysis of all the potential UK tax consequences for holders of Ordinary Shares of the Company. It addresses certain limited aspects of the UK taxation position of UK resident, ordinarily resident and domiciled Shareholders who are absolute beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. This summary does not address the position of certain classes of Shareholders who (together with associates) have a 10 per cent. or greater interest in the Company, or, such as dealers in securities, market makers, brokers, intermediaries, collective investment schemes, pension funds or UK insurance companies or whose shares are held under a personal equity plan or an individual savings account or are "employment related securities" as defined in Section 421B of the Income Tax (Earnings and Pensions) Act 2003. Any person who is in any doubt as to his tax position or who is subject to taxation in a jurisdiction other than the UK should consult his professional advisers immediately as to the taxation consequences of their purchase, ownership and disposition of Ordinary Shares. This summary is based on current United Kingdom tax legislation. Shareholders should be aware that future legislative, administrative and judicial changes could affect the taxation consequences described below.

17.1 The Company

The profits of the Company will be subject to UK corporation tax to the extent that it does not consist of the dividends received from UK companies or overseas companies subject to a number of conditions. Income arising from overseas investments may be subject to overseas taxes, subject to relief which may be available under any relevant double taxation agreement with the UK or UK domestic law.

17.2 The Shareholders

17.2.1 Withholding tax

Under current UK taxation legislation, no tax will be withheld at source from dividend payments by the Company.

17.2.2 Taxation of dividends

(a) United Kingdom resident shareholders

Individuals

UK resident individual Shareholders who receive a dividend from the Company will generally be entitled to a tax credit, which can be set off against the individual's income tax liability on the dividend payment. The rate of tax credit on dividends paid by the company will be 10 per cent. of the total of the dividend payment and the tax credit (the "gross dividend"), or one-ninth of the dividend payment. UK resident individual Shareholders will generally be taxable on the gross dividend, which will be regarded as the top slice of the Shareholder's income. UK resident individual Shareholders who are not liable to income tax in respect of the gross dividend will generally not be entitled to reclaim any part of the tax credit. In the case of a UK resident individual Shareholder who is not liable to income tax at the higher rates (taking account of the gross dividend he or she receives), the tax credit will satisfy in full such

Shareholder's liability to income tax. To the extent that a UK resident individual Shareholder's income (including the gross dividend) is subject to 40 per cent. income tax, such Shareholders will be subject to income tax on the gross dividend at the distribution income upper rate of 32.5 per cent. but will be able to set the tax credit against this liability. This results in an effective tax rate of 25 per cent. On the net dividend UK shareholders receiving dividends within the 50 per cent. band will be subject to an income tax rate of 42.5 per cent. on the gross dividend and an effective tax rate of approximately 36 per cent. of the net dividend.

Companies

A corporate Shareholder resident in the UK (for tax purposes) should generally not be subject to corporation tax or income tax on dividend payments received from the Company. Corporate Shareholders will not, however, be able to claim repayment of tax credits attaching to the dividend payment.

Trustee

Accumulated or discretionary income arising to the trustees of a settlement (other than under a trust established for charitable purposes only) is taxed at either the trust rate or dividend trust rate. The trust rate is 50 per cent.; the dividend trust rate is 42.5 per cent.

(b) Non-residents

Non-UK resident shareholders holding their shares directly should not be liable to UK income tax on dividends received from the Company. In general, the right of non-UK resident Shareholders to reclaim tax credits attaching to dividend payments by the Company will depend upon the existence and the terms of an applicable double tax treaty between their jurisdiction of residence and the UK. In most cases, the amount of tax credit that can be claimed by non-UK resident Shareholders from HMRC will be nil. They may also be liable to tax on the dividend income under the tax law of their jurisdiction of residence. Non-UK resident Shareholders should consult their own tax advisers in respect of their liabilities on dividend payments, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

17.2.3 *Chargeable gains*

A disposal of Ordinary Shares by a Shareholder who is resident or, in the case of an individual, ordinarily resident for tax purposes in the UK, will in general be subject to UK taxation on capital gains on a disposal of Ordinary Shares.

A Shareholder who is neither resident nor ordinarily resident in the UK for tax purposes, but who carries on a trade, profession or vocation in the UK through a permanent establishment (where the Shareholder is a company) or through a branch or agency (where the Shareholder is not a company) and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such permanent establishment, branch or agency (as appropriate) will be subject to UK tax on capital gains on the disposal of Ordinary Shares.

In addition, any holders of Ordinary Shares who are individuals and who dispose of shares while they are temporarily non resident may be treated as disposing of them in the tax year in which they again become resident in the UK.

For UK individuals capital gains are chargeable at a flat rate of 18 per cent. and 28 per cent. depending on the individual's total taxable income and gains subject to certain reliefs and exemptions. For trustees of UK settlements gains are taxed at 28 per cent. In cases where

the trustees would qualify for Entrepreneurs Relief the rate is 10 per cent. For UK corporates any gain would be taxable at a maximum rate of 28 per cent. Indexation may apply to reduce any such gain (though indexation is no longer available to individuals and trustees).

17.3 *Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)*

No UK stamp duty will be payable on the issue by the Company of Ordinary Shares. Transfers of Ordinary Shares for value will generally give rise to a liability to pay UK ad valorem stamp duty, or stamp duty reserve tax, at the rate in each case of 50 pence per £100 of the amount or value of the consideration (rounded up in the case of stamp duty to the nearest £5).

17.4 *Inheritance and Gift Taxes*

Ordinary Shares beneficially owned by an individual Shareholder will be subject to UK inheritance tax on the death of the Shareholder (even if the Shareholder is not domiciled or deemed domiciled in the UK), although the availability of exemptions and reliefs may mean that in some circumstances there is no actual tax liability. A lifetime transfer of assets to another individual or trust may also be subject to UK inheritance tax based on the loss of value to the donor, although again exemptions and reliefs may be relevant. Particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold shares, which could bring them within the charge to UK inheritance tax.

Shareholders should consult an appropriate professional adviser if they intend to make a gift of any kind or intend to hold any Ordinary Shares through trust arrangements. They should also seek professional advice in a situation where there is a potential for a double charge to UK inheritance tax and an equivalent tax in another country. The comments set out above are intended only as a general guide to the current tax position in the UK at the date of this document. The rates and basis of taxation can change and will be dependent on a Shareholder’s personal circumstances.

Neither the Company nor its advisers warrant in any way the tax position outlined above which, in any event, is subject to changes in the relevant legislation and its interpretation and application.

18. *Premises*

18.1 No member of the Group owns any premises.

18.2 The Company’s principal place of business is at Level 5/6, the Exchange Building, 142 St Vincent Street, Glasgow, G2 5LA. The Company occupies two floors (being floor five and six) at these premises. The occupation of the fifth floor is by virtue of a licence which is due to expire on 10 February 2012. The licence fee payable is £40,000 per annum. The occupation of the sixth floor is by virtue of a lease which is due to expire on 31 March 2021. The rent payable is £41,500 per annum.

19. *Consents and Other Information*

19.1 Cenkos has given and not withdrawn its written consent to the issue of this document with the inclusion in it of its letter set out in Section C of Part V and references to its name in the form and context in which they appear.

19.2 Baker Tilly have given and not withdrawn its written consent to the inclusion in this document of their reports contained in Parts IV, V and VI in the form and context in which they appear.

19.3 Murgitroyd has given and not withdrawn its written consent to the inclusion in Part III of this document of its report, the references thereto and to its name in the form and context in which they appear.

19.4 The financial information in this document does not comprise statutory accounts for the purposes of sections 434-435 of the 2006 Act.

- 19.5 There has been no public takeover bid or squeeze out for the whole or any part of the share capital of the Company or any member of the Group prior to the date of this document.
- 19.6 Save as otherwise described in this document there has been no significant change in the financial or trading position of any company with the Company's group since 31 December 2010, the date to which the last published financial information set out in Part IV of this document was prepared.
- 19.7 Except as disclosed in this document:
- 19.7.1 there are no environmental issues that may affect the Company's utilisation of its tangible fixed assets;
 - 19.7.2 there are no known trends, uncertainties, demands or events that are reasonably likely to have a material adverse effect on the Group's prospects for at least the current financial year;
 - 19.7.3 there are no patents or other intellectual property rights, licences or particular industrial, commercial or financial contracts or new manufacturing processes which are of fundamental importance to the Group's business or profitability; and
 - 19.7.4 there are no exceptional factors that have influenced the Group's activities.
- 19.8 Except as disclosed in this document, there have been no significant authorised or contracted capital commitments of the Group at the date of publication of this document.
- 19.9 The gross proceeds of the Placing (of New Ordinary Shares) are expected to be approximately £10 million. The total costs and expenses payable by the Company in connection with Admission (including professional fees, commissions, the costs of printing and the fees payable to the registrars) are estimated to amount to approximately £1.35 million excluding VAT. The Company will finance the expenses incurred in connection with the application for Admission out of the proceeds of the Placing.
- 19.10 Except as stated in paragraph 13 of this Part VII of this document and for the advisers named on pages 10 and 11 of this document and trade suppliers, no person has received, directly or indirectly, from the Company within the twelve months preceding the date of this document or has entered into any contractual arrangements to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more or any other benefit with a value of £10,000 or more at the date of Admission.
- 19.11 Where information contained in this document has been sourced from a third party, the Company confirms that such information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 19.12 The Ordinary Shares are issued and allotted in registered form under the laws of Scotland and their currency is pounds sterling. No admission to listing or trading of the Ordinary Shares is being sought on any stock exchange other than AIM.
- 19.13 It is expected that CREST accounts will be credited as applicable on the date of Admission. Share certificates (where applicable) will be despatched by first class post within 14 days of the date of Admission.
- 19.14 Temporary documents of title will not be issued in relation to Ordinary Shares.
- 19.15 Stephen Timoney and Alan Foy received loans from an EBT established by the Group in 2007 and 2008. HMRC have challenged the terms on which the loans were made and if that challenge is successful the Company may be required to make certain payments. Stephen Timoney and Alan Foy have agreed to indemnify the Company in respect of any such payments insofar as they relate to (i) their personal tax liabilities connected with the loans, (ii) any national insurance contributions in respect of the loans and (iii) any corporate tax liability, in each case which the Company may be obliged to make. The indemnities in respect of personal tax and corporate tax will continue indefinitely, and the indemnity in respect of National Insurance contributions will

continue until 5 April 2014, unless HMRC opens an inquiry into the Company's National Insurance contributions in respect of the loans prior to that date. If any such an enquiry is opened then the indemnity in respect of the Company's National Insurance contributions will be extended indefinitely. Further details are set out in note 26 of the Historical Information set out in Part IV of this document.

- 19.16 There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.
- 19.17 Pursuant to Chapter 5 of the Disclosure and Transparency Rules a person must notify the Company of the percentage of its voting rights he holds as shareholder or through his direct or indirect holding of certain financial instruments (or a combination of such holdings) if the percentage of those voting rights (a) reaches, exceeds or falls below 3 per cent., 4 per cent., 5 per cent., 6 per cent., 7 per cent., 8 per cent., 9 per cent., 10 per cent. and each 1 per cent. threshold thereafter up to 100 per cent. as a result of an acquisition or disposal of shares or such financial instruments; or (b) reaches, exceeds or falls below an applicable threshold in (a) as a result of events changing the breakdown of voting rights and on the basis of information disclosed by the Company in accordance with the Disclosure and Transparency Rules. Certain voting rights held by investment managers, unit trusts, OEICS and market makers can be disregarded except at the thresholds of 5 per cent. and 10 per cent. and above.
- 19.18 The Directors intend to comply with Rule 21 of the AIM Rules relating to Directors' and applicable employees' dealings in Ordinary Shares and to this end, the Company has adopted an appropriate Share Dealing Code.
- 19.19 Save as disclosed in paragraph 13 of this Part VII of this document, no commission is payable by the Company to any person in consideration of his agreeing to subscribe for securities to which this document relates or of his procuring or agreeing to procure subscriptions for such securities.
- 19.20 Save as disclosed in this document, no payment (including commissions) or other benefit has been or is to be paid or given to any promoter of the Company.
- 19.21 Save as disclosed in this document, no agreement, arrangement or undertaking (including any compensation arrangement) exists with any Director, recent director of the Company, Shareholder or recent shareholder of the Company in relation to the Placing and Admission.

20. Documents available for Inspection

- 20.1 Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted), at the offices of Dundas & Wilson CS LLP, 191 West George Street, Glasgow, G2 2LD for a period of one month from the date of this document:
 - 20.1.1 the Articles;
 - 20.1.2 the financial information on the Group set out in Part VI of this document;
 - 20.1.3 the Directors' service contracts and letters of appointment referred to in paragraph 7 of this Part VII of the document;
 - 20.1.4 the written consents of Cenkos, Baker Tilly, Murgitroyd & Company Limited referred to in paragraph 19 of this Part VII of the document;
 - 20.1.5 the patent's agent report from Murgitroyd set out in Part III of this document;
 - 20.1.6 the report from Baker Tilly on the financial information on the Group set out in Part IV of this document; and
 - 20.1.7 the report from Baker Tilly on the profit estimate of the Group set out in Part V of this document.
 - 20.1.8 the report from Baker Tilly on the unaudited pro forma financial information set out in Part VI of this document.

21. Copies of this Document

- 21.1 Copies of this document will be available to the public free of charge at the offices of Dundas & Wilson CS LLP at 191 West George Street, Glasgow G2 2LD during normal business hours on any weekday (other than Saturdays, Sundays and public holidays), for a period of at least one month from the date of Admission. Copies of this document will also be available for download from the Company's website at www.sms-plc.com.

24 June 2011



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systems plc

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