Company Registration No.5782908

# ALERTME.COM LIMITED

## Report and Financial Statements

## 31 December 2012

ALERTME.COM LIMITED

## REPORT AND FINANCIAL STATEMENTS 2012

## CONTENTS

## ALERTME.COM LIMITED

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

### ACTIVITIES

The Group's principal activities during the year were to continue building commercial relationships with key channel partners and continued product and service development

The subsidiary undertakings principally affecting the losses or net assets of the Group in the year are listed in note 7 to the financial statements

### BUSINESS REVIEW

The Group sells energy saving and connected home products for use in consumer households The directors believe that the combination of attractive products in the home and the AlertMe on-line service, which can be accessed via PCs or mobile devices, gives consumers the opportunity to make significant savings on their energy bills as well as providing increased comfort, convenience and "peace of mind" that their home is safe

Highlights of 2012 were

- Following contract signing in November 2011, delivered an extendable connected home solution for Lowe's (a large US retailer) branded in-store as 'IRIS' and launched it in July 2012
- Entered into contract with Essent, a Dutch utility, in early 2012 and launched 'E-Insight' in November 2012, a new and unique cloud-based 'Smart Energy' service
- Launched a controllable heating product for BG, marketed as "Remote Heating Control™" in summer 2012
- Strong growth in both revenues and gross margin
- Secured £8 7m in Bridge funding
- Awards in 2012 include
    - 2012 Red Herring Europe 100 and Global 100
    - Smart Metering UK & Europe Best In Home Display 2012
    - Wired Magazine's No 1 London start-up in their "top ten start-ups in Europe's top ten capital cities"
    - Listed as number 9 on The Sunday Times Tech Track 100
    - Stuff Awards 2012 - Gadget of the Year (BG's Remote Heating Control™)
- Appointed new COO and CFO in 2012 thereby strengthening the management team

During 2013 key priorities will be for the Group to continue to deliver on its commitments to British Gas, Lowe's and Essent

The Board monitors the Group's performance in a number of ways including key performance indicators The key financial performance indicators together with the information for 2012 and 2011 are as follows

| | **2012** | **2011** |
|---|---|---|
| Turnover | £13,610,371 | £7,582,826 |
| Gross profit | £2,451,043 | £629,884 |
| Gross profit percentage | 18 0% | 8 3% |
| Operating loss | £(12,966,865) | £(9,027,286) |
| Employees (average number) | 92 | 83 |

The Group also uses certain non-financial performance indicators, the most significant of which is the number of employees

Group revenues grew significantly in the year, this was mainly due to increased activity with British Gas and also with Lowe's, following launch in mid 2012 of the new connected home solution branded in-store as IRIS

The operating loss for the year was mainly driven by a continuing investment in research & development activities This has resulted in a number of new products being launched during the year and which are expected to make significant contributions to the growth of the business The directors regard investment in this area to be a prerequisite for success in the medium to long term future

# DIRECTORS' REPORT

## BUSINESS REVIEW (CONTINUED)

The balance sheet on page 9 of the financial statements shows the Group's financial position at year end The group is financed by bank loans and equity share capital

The directors expect the general level of activity to increase over the short term future

## PRINCIPAL RISKS AND UNCERTAINTIES

In common with other organisations, we are affected by a number of risks, not all of which are in our control Some risks, such as UK macroeconomic factors, are likely to affect the performance of UK businesses generally, while others are particular to our operations This section sets out the material risks to the Group and how we seek to mitigate them

### End consumer traction

*Potential impact* Lack of consumer demand may impact financial performance

*Mitigation* We work closely with our partners and regularly monitor product propositions to ensure these are aligned to end customer requirements We look to work with partners who have strong relationships with their end customers and a good understanding of their needs

### Platform reliability

*Potential impact* Failure to provide a stable and reliable platform will impact our ability to meet defined service levels and may impact financial performance

*Mitigation* We focus continually on improving platform performance and continue to invest to ensure we keep pace with customer growth

### Product safety

*Potential impact* Unsafe products may cause damage to our reputation and may impact financial performance

*Mitigation* All our products are rigorously tested and conform to applicable safety standard specifications for the local markets in which we operate

### Key suppliers

*Potential impact* Failure of key suppliers could affect the Group's ability to operate its business

*Mitigation* We manage these risks by ensuring we have a strong supplier selection process with appropriate on-going management and monitoring

## FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a number of financial risks, particularly credit and cash flow risk, including changes in foreign currency exchange rates

### *Cash flow risk*

To manage the risk of foreign exchange movements the Group maintains a foreign currency bank account in both Dollars and Euros Receipts and payments denominated in foreign currencies are matched as far as possible

### *Credit risk*

The Group's principal financial assets are bank balances and trade debtors The Group's credit risk is primarily attributable to its trade debtors The amounts presented in the balance sheet are net of provisions for doubtful debts Credit risk exposure across the customer base is limited because the customers are blue chip businesses with strong credit ratings

### *Liquidity risk*

In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the Group uses both medium term and short term debt finance as well as equity

# DIRECTORS' REPORT

## GOING CONCERN

The company is loss-making and will require equity or debt financing to fund its operations until such time as sales revenues and gross margins are sufficient to support its operations The Group raised £8 7 million of financing in 2012 and on 3 June 2013 a further £6 75 million equity was agreed Thus they continue to adopt the going concern basis in preparing the financial statements

Further details regarding the adoption of the going concern basis can be found in the Statement of Accounting Policies in the financial statements

## ENVIRONMENT

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the company's activities The company operates in accordance with its predetermined policies Initiatives designed to minimise the company's net impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption

## EMPLOYEES

Details of the number of employees and related costs can be found in note 2 to the financial statements

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company This is achieved through formal and informal meetings and the company updates Employees are consulted regularly on a wide range of matters affecting their current and future interests

## DIVIDENDS

The directors do not recommend a dividend for 2012

## DIRECTORS

The directors who served during the year are shown below

| | |
|---|---|
| B Brenninkmeijer | |
| R Mackintosh | |
| S Klein | |
| L Burrows | |
| P G W Beart | |
| M Turner | |
| G Lane | (resigned 3 December 2012) |
| N Bhatia | (appointed 3 December 2012) |

## ALERTME.COM LIMITED

## DIRECTORS' REPORT

### AUDITOR

Each of the persons who is a director at the date of approval of this annual report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting

### DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year  Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)  Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period  In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

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

P G W Beart

Director

17 September 2013

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALERTME.COM LIMITED

We have audited the financial statements of Alertme com Limited for the year ended 31 December 2012 which comprise the consolidated profit and loss account, the consolidated and parent company balance sheets and the related notes 1 to 24 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

**Respective responsibilities of directors and auditor**

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

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALERTME.COM LIMITED (continued)

**Matters on which we are required to report by exception**

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

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

David Halstead

**David Halstead (Senior Statutory Auditor)**
**For and on behalf of Deloitte LLP**
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

18 September 2013

ALERTME.COM LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
**Year ended 31 December 2012**

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| **TURNOVER** | 3 | 13,610,371 | 7,582,826 |
| Cost of sales | | (11,159,328) | (6,952,942) |
| Gross profit | | 2,451,043 | 629,884 |
| Administrative expenses | | (15,417,946) | (9,821,873) |
| Other operating income - grant income | | 38 | 164,703 |
| **OPERATING LOSS** | 4 | (12,966,865) | (9,027,286) |
| Finance charge of preferred shares | | - | (5,701,649) |
| Finance charge on convertible debt | | (455,238) | - |
| Bank interest payable | | (273,004) | (124,524) |
| Bank interest receivable | | 8,521 | 30,672 |
| **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION** | | (13,686,586) | (14,822,787) |
| Tax on loss on ordinary activities | 5 | 105,724 | 101,217 |
| **LOSS FOR THE YEAR** | 18 | (13,580,862) | (14,721,570) |

All transactions are derived from continuing operations

ALERTME.COM LIMITED

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
**Year ended 31 December 2012**

| | Note | 2012<br>£ | 2011<br>£ |
|---|---|---|---|
| **LOSS FOR THE YEAR** | | (13,580,862) | (14,721,570) |
| Exchange difference on re-translation of net assets of subsidiary undertakings | 18 | (802) | (360) |
| **TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR** | | (13,581,664) | (14,721,930) |

## ALERTME.COM LIMITED

## CONSOLIDATED BALANCE SHEET
## 31 December 2012

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 8 | 265,065 | 279,791 |
| Tangible assets | 9 | 478,489 | 204,422 |
| | | 743,554 | 484,213 |
| **CURRENT ASSETS** | | | |
| Stocks | 10 | 471,944 | 1,135,590 |
| Debtors | 11 | 2,216,708 | 2,176,459 |
| Cash at bank and in hand | | 3,752,283 | 5,674,097 |
| | | 6,440,935 | 8,986,146 |
| **CREDITORS: amounts falling due within one year** | 12 | (14,197,724) | (1,447,659) |
| **NET CURRENT (LIABILITIES) / ASSETS** | | (7,756,789) | 7,538,487 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (7,013,235) | 8,022,700 |
| **CREDITORS: amounts falling due after more than one year** | 13 | (666,667) | (2,000,000) |
| **PROVISIONS FOR LIABILITIES** | 14 | (18,000) | (140,393) |
| **NET (LIABILITIES) / ASSETS** | | (7,697,902) | 5,882,307 |
| **FINANCED BY:** | | | |
| **Financial liabilities** | 15 | - | 28,123,893 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 16 | 1,120,108 | 1,119,064 |
| Share premium account | 18 | 27,107,619 | 7,797,619 |
| Profit and loss account | 18 | (35,925,629) | (31,158,269) |
| **SHAREHOLDERS' DEFICIT** | 19 | (7,697,902) | (22,241,586) |
| | | (7,697,902) | 5,882,307 |

The financial statements of Alertme com Limited, registered number 5782908, were approved by the Board of Directors and authorised for issue on 17 September 2013.

Signed on behalf of the Board of Directors

P G W Beart

Director

## ALERTME.COM LIMITED

## COMPANY BALANCE SHEET
**31 December 2012**

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Investments | 7 | 200,682 | 200,682 |
| Tangible assets | 9 | 444,070 | 201,294 |
| | | 644,752 | 401,976 |
| **CURRENT ASSETS** | | | |
| Stocks | 10 | 452,946 | 1,127,353 |
| Debtors | 11 | 2,281,833 | 2,341,362 |
| Cash at bank and in hand | | 3,669,193 | 5,635,914 |
| | | 6,403,972 | 9,104,629 |
| **CREDITORS: amounts falling due within one year** | 12 | (13,959,299) | (1,468,962) |
| **NET CURRENT (LIABILITIES) / ASSETS** | | (7,555,327) | 7,635,667 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (6,910,575) | 8,037,643 |
| **CREDITORS: amounts falling due after more than one year** | 13 | (666,667) | (2,000,000) |
| **PROVISIONS FOR LIABILITIES** | 14 | (18,000) | (140,393) |
| **NET ASSETS** | | (7,595,242) | 5,897,250 |
| **FINANCED BY:** | | | |
| **Financial liabilities** | 15 | - | 28,123,893 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 16 | 1,120,108 | 1,119,064 |
| Share premium account | 18 | 27,107,619 | 7,797,619 |
| Profit and loss account | 18 | (35,822,969) | (31,143,326) |
| **SHAREHOLDERS' DEFICIT** | | (7,595,242) | (22,226,643) |
| | | (7,595,242) | 5,897,250 |

The financial statements of Alertme com Limited, registered number 5782908, were approved by the Board of Directors and authorised for issue on 17 September 2013.

Signed on behalf of the Board of Directors

P G W Beart

Director

## CONSOLIDATED CASH FLOW STATEMENT
### Year ended 31 December 2012

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| **Net cash outflow from operating activities** | 20 (a) | (9,074,586) | (8,047,251) |
| **Return on investments and servicing of finance** | | | |
| Interest received | | 8,521 | 30,672 |
| Interest paid | | (279,726) | (104,140) |
| | | (271,205) | (73,468) |
| **Taxation** | | | |
| Corporation tax refund | | 12,923 | 283,173 |
| Overseas tax paid | | (4,158) | (5,397) |
| | | 8,765 | 277,776 |
| **Capital expenditure and financial investment** | | | |
| Payments to acquire tangible fixed assets | | (481,249) | (79,385) |
| Receipts from the sale of tangible fixed assets | | 5,777 | - |
| | | (475,472) | (79,385) |
| **Acquisitions and disposals** | | | |
| Purchase of subsidiary undertaking, including costs | | - | (180,210) |
| Deferred consideration on purchase of subsidiary | | (125,393) | 125,393 |
| Net overdraft acquired with subsidiary undertaking | | - | (18,141) |
| Loans acquired with subsidiary undertaking | | - | (60,000) |
| | | (125,393) | (132,958) |
| **Net cash outflow before management of liquid resources and financing** | | (9,937,891) | (8,055,286) |
| **Management of liquid resources** | | | |
| Decrease in short-term deposits | | - | 4,500,000 |
| **Financing** | | | |
| Issue of ordinary share capital | | 1,044 | 352 |
| Share issue costs | | - | (21,625) |
| New loans | | 8,682,087 | 2,000,000 |
| Repayment of debt principal | | (666,666) | - |
| | | 8,016,465 | 1,978,727 |
| **Decrease in cash** | 20 (b) | (1,921,426) | (1,576,559) |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

## 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards The particular accounting policies adopted are described below
Basis of accounting

The financial statements are prepared under the historical cost convention

**Basis of consolidation**

The group financial statements consolidate the financial statements of Alertme com Limited and all its subsidiary undertakings drawn up as at 31 December 2012

Wattbox Limited has been included in the group financial statements using the acquisition method of accounting Accordingly, the group profit and loss account and statement of cash flows include the results and cash flows of Wattbox Limited from its acquisition on 1 August 2011 The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition

In the parent company financial statements investments in subsidiary undertakings are accounted for at the lower of costs and net realisable value

**Goodwill**

Goodwill arising on acquisition is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

**Going concern**

These financial statements have been prepared on a going concern basis The company is loss-making and will require equity or debt financing to fund its operations until such time as sales, revenues and gross margins are sufficient to support its operations The Group and Company believes that it can access various forms of financing to fund additional working capital to support sales growth, including additional equity investment, venture debt or various forms of trade finance and raised £8 6m of Bridge loans in 2012 which converted to equity in 2013 and a further £6 75m of equity financing in 2013 In addition, a working capital finance facility with Silicon Valley Bank was renewed in August 2013 for a further 12 months with an increase in the base facility amount The directors have prepared projected cash flow information for a period in excess of 12 months from the date of approval of these financial statements The directors have examined the results of a sensitivity analysis on the financial plan to assess the effects on cash given certain downside scenarios Based on this, they have concluded that the Group and Company will continue in operational existence for the foreseeable future It is on this basis the directors have concluded the Group and Company are a going concern

These financial statements do not reflect any adjustments that may be required if the Group was unable to continue in operational existence for the foreseeable future

**Turnover**

Turnover represents the amount derived from the provision of goods and services which fall within the company's and group's ordinary activities after deduction of trade discounts, value added tax and similar taxes

**Investments**

Investments held as fixed assets are stated at cost net of any provision for impairment

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

1. **ACCOUNTING POLICIES (continued)**

**Tangible fixed assets**

Tangible fixed assets are held at cost less accumulated depreciation Depreciation is provided on cost in equal instalments over the estimated useful lives of the assets The rates of depreciation are as follows

| | |
|---|---|
| Office equipment | 3 years straight line |
| Fixtures and fittings | 5 years straight line |

**Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

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

**Stocks**

Stocks are stated at the lower of cost and net realisable value

**Foreign currencies**

*Company*

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date These translation differences are dealt with in the profit and loss account

*Group*

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date for balance sheet items and at the average rate for the monthly profit and loss transactions The exchange differences arising on the retranslation of opening net assets is taken directly to reserves All other translation differences are taken to the profit and loss account

**Grant income**

The government grant is credited to the profit and loss account as and when the related expenditure has been incurred

**Provision for liabilities**

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

### 1. ACCOUNTING POLICIES (continued)

**Share-based payments**

The group issues equity-settled share-based payments to certain employees, including share options with non-market based vesting conditions Equity settled share-based payments are measured at the fair value at the date of grant using the Black-Scholes option pricing model The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity

**Leases**

Rentals applicable to operating leases where substantially all the risks and rewards of ownership remain with the lessor are charged to the profit and loss account on a straight line basis over the life of the lease

### 2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| **Directors' remuneration** | | |
| Emoluments | 332,945 | 313,401 |

The highest paid director received £164,238 (2011 - £164,815) in the year

| | | |
|---|---|---|
| **Average number of persons employed by the company during the year** | **No** | **No** |
| Administration and development | 92 | 83 |
| **Staff costs incurred during the year in respect of these employees** | **£** | **£** |
| Wages and salaries | 5,855,947 | 4,391,678 |
| Social security costs | 599,687 | 460,015 |
| Other pension costs | 52,878 | 17,451 |
| | 6,508,512 | 4,869,144 |

### 3. GEOGRAPHICAL ANALYSIS OF TURNOVER

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| United Kingdom | 7,389,377 | 7,462,573 |
| USA | 5,355,297 | - |
| Rest of the world | 865,697 | 120,253 |
| | 13,610,371 | 7,582,826 |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

## 4. OPERATING LOSS

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| **Operating loss is stated after charging/(crediting):** | | |
| Depreciation | | |
| Owned assets | 201,003 | 110,745 |
| Loss on disposal of fixed assets | 558 | 1,124 |
| Amortisation of goodwill | 14,726 | 14,726 |
| Operating lease rentals - land and buildings | | 210,843 |
| Auditor's remuneration | | |
| Audit of financial statements | 34,000 | 22,500 |
| Taxation services | 5,500 | 5,500 |
| Other services | 3,500 | 3,500 |

## 5. TAX ON LOSS ON ORDINARY ACTIVITIES

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| **Current taxation** | | |
| Research and development tax credit | (124,207) | (116,468) |
| Prior year adjustment | - | 11,919 |
| Foreign tax | 18,483 | 3,332 |
| | (105,724) | (101,217) |

The standard rate of corporation tax for the year, based on the UK standard rate of corporation tax is 24 5% (2011 - 26 5%) The actual tax charge for the current and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Loss on ordinary activities before tax | (13,686,586) | (14,822,787) |
| Tax on loss on ordinary activities at standard rate | (3,353,214) | (3,928,039) |
| Factors affecting charge for the year | | |
| Expenses not deductible for tax purposes | 159,580 | 1,562,918 |
| Capital allowances in deficit (excess) of depreciation | 17,597 | (2,392) |
| Tax losses carried forward | 3,339,916 | 2,488,645 |
| R&D tax credit | (266,374) | (232,789) |
| Difference in tax rate | (3,229) | (1,479) |
| Prior period adjustments | - | 11,919 |
| Total actual amount of current tax | (105,724) | (101,217) |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

### 6. LOSS ATTRIBUTABLE TO THE COMPANY

The loss for the financial year dealt with in the financial statements of the parent company was £13,493,947 (2011 - £14,691,578) As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company

### 7. INVESTMENTS HELD AS FIXED ASSETS

**Company**

| **Cost** | **Unlisted** **£** |
|---|---|
| At 1 January 2012 and 31 December 2012 | 200,682 |

In May 2009, the company set up a wholly owned subsidiary registered in the US There are 100 shares and each share has a par value of $0 01 The principal activity of the subsidiary is a sales office

In July 2010 Alertme com Limited purchased a German "off the shelf" company which it immediately renamed Alertme com GmbH for €25,000 The gross and net assets of the acquired company on the date of purchase were €25,000 There are 25,000 shares and each share has a par value of €1 The principal activity of the subsidiary is a sales office

In August 2011 Alertme com Limited acquired 100% of the share capital of Wattbox Limited, satisfied by way of cash consideration of £160,210 and by the issue of 366,260 ordinary shares of £0 001 each at par The investment in Wattbox Limited has been included in the company's balance sheet at its fair value at the date of acquisition Part of the consideration was conditional upon achievement of two agreed sets of milestone objectives (see below) These were both achieved and the amounts due were as follows

February 2012 £62,500 less a working capital purchase price adjustment of £3,517 and 91,565 ordinary shares of £0 001 to be issued at par

August 2012 £62,501 and 91,565 ordinary shares of £0 001 to be issued at par

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are listed below, all of which are included in the Group consolidated accounts

| **Name of company** | **Holding** | **Proportion of voting rights and shares held** | **Nature of business** | **Country of incorporation** |
|---|---|---|---|---|
| Alertme com, Inc | Common stock | 100% | Sales office | United States |
| AlertMe com GmbH | Ordinary shares | 100% | Sales office | Germany |
| Wattbox Limited | Ordinary shares | 100% | Product development | England |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

### 8. INTANGIBLE ASSETS

| Group | Goodwill £ |
|---|---|
| **Cost** | |
| At 1 January 2012 and 31 December 2012 | 294,517 |
| **Amortisation** | |
| At 1 January 2012 | 14,726 |
| Charge in year | 14,726 |
| At 31 December 2012 | 29,452 |
| **Net book value** | |
| At 31 December 2012 | 265,065 |
| At 31 December 2011 | 279,791 |

Goodwill arising on the acquisition of Wattbox Limited is being amortised evenly amortised over its presumed useful economic life of 20 years

### 9. TANGIBLE FIXED ASSETS

| Group | Office equipment £ | Fixtures and fittings £ | Total £ |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2012 | 366,276 | 99,053 | 465,329 |
| Exchange adjustment | (41) | - | (41) |
| Additions | 191,572 | 289,677 | 481,249 |
| Disposals | (9,254) | - | (9,254) |
| At 31 December 2012 | 548,553 | 388,730 | 937,283 |
| **Depreciation** | | | |
| At 1 January 2012 | 207,710 | 53,197 | 260,907 |
| Exchange adjustment | (120) | (77) | (197) |
| Charge in year | 125,255 | 75,748 | 201,003 |
| Disposals | (2,919) | - | (2,919) |
| At 31 December 2012 | 329,926 | 128,868 | 458,794 |
| **Net book value** | | | |
| At 31 December 2012 | 218,627 | 259,862 | 478,489 |
| At 31 December 2011 | 158,566 | 45,856 | 204,422 |

## NOTES TO THE FINANCIAL STATEMENTS
**Year ended 31 December 2012**

### 9. TANGIBLE FIXED ASSETS (continued)

| **Company** | **Office equipment** £ | **Fixtures and fittings** £ | **Total** £ |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2012 | 362,547 | 98,445 | 460,992 |
| Additions | 165,127 | 273,656 | 438,783 |
| Disposals | (7,058) | - | (7,058) |
| At 31 December 2012 | 520,616 | 372,101 | 892,717 |
| **Depreciation** | | | |
| At 1 January 2012 | 206,655 | 53,043 | 259,698 |
| Charge in year | 119,477 | 71,832 | 191,309 |
| Disposals | (2,360) | - | (2,360) |
| At 31 December 2012 | 323,772 | 124,875 | 448,647 |
| **Net book value** | | | |
| At 31 December 2012 | 196,844 | 247,226 | 444,070 |
| At 31 December 2011 | 155,892 | 45,402 | 201,294 |

### 10. STOCKS

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** £ | **2011** £ | **2012** £ | **2011** £ |
| Raw materials | 50,896 | 149,439 | 50,896 | 149,439 |
| Work in progress | - | 17,851 | - | 17,851 |
| Finished goods | 421,048 | 968,300 | 402,050 | 960,063 |
| | 471,944 | 1,135,590 | 452,946 | 1,127,353 |

### 11. DEBTORS

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** £ | **2011** £ | **2012** £ | **2011** £ |
| Due within one year | | | | |
| Trade debtors | 1,340,522 | 1,361,549 | 601,489 | 1,304,077 |
| VAT debtor | - | 58,119 | - | 53,997 |
| Other debtors | 181,765 | 37,313 | 179,137 | 37,313 |
| Amounts owed by group undertakings | - | - | 838,647 | 231,789 |
| Corporation tax debtor | 22,959 | 3,839 | - | - |
| Research and development tax credit | 240,674 | 116,468 | 240,674 | 116,468 |
| Prepayments and accrued income | 430,788 | 599,171 | 421,886 | 597,718 |
| | 2,216,708 | 2,176,459 | 2,281,833 | 2,341,362 |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

### 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group 2012 £ | Group 2011 £ | Company 2012 £ | Company 2011 £ |
|---|---|---|---|---|
| Trade creditors | 593,776 | 218,048 | 605,089 | 212,327 |
| Amounts owed to group company | - | - | 23,768 | 39,724 |
| Bridging loans | 8,682,087 | - | 8,682,087 | - |
| Silicon Valley Bank loan | 666,666 | - | 666,666 | - |
| Corporation tax creditor | 46,367 | - | - | - |
| VAT creditor | 129,066 | - | 125,385 | - |
| Other taxes and social security | 218,494 | 145,831 | 164,089 | 146,433 |
| Other creditors | 2,070,261 | 3,751 | 2,070,261 | 3,751 |
| Accruals and deferred income | 1,791,007 | 1,080,029 | 1,621,954 | 1,066,727 |
| | 14,197,724 | 1,447,659 | 13,959,299 | 1,468,962 |

In August 2013, the working capital financing facility with SVB was renewed for a further 12 months on similar terms to the original agreement The base facility amount has been increased from $3 5m to $4 75m

### 13. CREDITORS· AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group 2012 £ | Group 2011 £ | Company 2012 £ | Company 2011 £ |
|---|---|---|---|---|
| Silicon Valley Bank loan | 666,667 | 2,000,000 | 666,667 | 2,000,000 |

On 13 June 2011, the company secured £2m of debt finance Interest is charged at 12% per annum The repayment of the capital began after six months and is spread over 36 months In addition to the interest, SVB were granted a warrant to purchase 147,433 preferred shares at £1 4922 per share

### 14. PROVISIONS FOR LIABILITIES

| Group and company | Dilapidation costs £ | Deferred consideration £ | Total £ |
|---|---|---|---|
| At 1 January 2012 | 15,000 | 125,393 | 140,393 |
| Arising during the year | 18,000 | - | 18,000 |
| Utilisation during the year | (15,000) | (125,393) | (140,393) |
| At 31 December 2012 | 18,000 | - | 18,000 |

*Provision for dilapidations*

The company's lease on its Cambridge office expires in March 2021 with a tenant break clause in February 2015 The company's lease on its London office expires on 11 July 2013 The terms of the leasehold agreements state that Alertme com Limited is responsible for making good any changes made to the floorspace This is the estimated cost for both offices

*Deferred consideration on acquisition of Wattbox Limited*

During 2012, the deferred consideration conditions were achieved and payments were made in accordance to the sale and purchase agreement Refer to note 7 for details

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

### 15. FINANCIAL LIABILITIES

| | Group 2012 £ | Group 2011 £ | Company 2012 £ | Company 2011 £ |
|---|---|---|---|---|
| Preferred shares of 6p each (see note 16) | - | 19,310,000 | - | 19,310,000 |
| Implied finance charge on above | - | 8,813,893 | - | 8,813,893 |
| | - | 28,123,893 | - | 28,123,893 |

### 16. CALLED UP SHARE CAPITAL

| | 2012 £ | 2011 £ |
|---|---|---|
| **Called up, allotted and fully paid** | | |
| 1,640,591 (2011 - 597,240) ordinary shares of 0 1p each | 1,641 | 597 |
| 18,641,111 preferred shares of 6p each | 1,118,467 | 1,118,467 |
| | 1,120,108 | 1,119,064 |

During 2012, 620,221 share options were exercised at £0 01 per share In addition, 240,000 shares were issued to the Chairman and, in December 2012, as the final part of the acquisition of Wattbox Limited 183,130 shares were issued

In 2011, the preferred shares were redeemable by the holder after 30 April 2014 at twice the subscription price Due to the redemption feature, the instrument had both debt and equity traits as per FRS 25 The debt element of the instrument was required to be fair valued, with the balance being credited to the share premium account The fair value of the debt was valued at £19,310,000, with the balance of £3,692,305 remaining in equity An implied finance charge of £8,813,893 (2011 £5,701,648 and 2010 £3,112,245) calculated at an interest rate of 25% per annum had been taken through the profit and loss account to 31 December 2012 In November 2012, new Articles were adopted that removed this redemption clause and consequently no implied finance charge is required to be recorded The implied finance charges for prior years have been adjusted to reserves

The preferred shares rank first in respect of liquidation, a sale of the trade and assets, or a sale of the company equal to the price prescribed in the articles (which is equal to or lower than the subscription price) The 18,641,111 preferred shares and all ordinary shares carry one vote per share

## NOTES TO THE FINANCIAL STATEMENTS
**Year ended 31 December 2012**

### 16. CALLED UP SHARE CAPITAL (continued)

In 2012, share options were granted over ordinary shares under the Enterprise Management Incentive Scheme as follows These options each have an exercise price of £0 001 per share and, generally, they vest monthly over either 36 or 48 months after grant although vesting for the first 12 months is deferred until the first anniversary of grant

| | Number of share options £ |
|---|---|
| Outstanding at the beginning of the year | 3,949,184 |
| Granted during the year | 1,236,000 |
| Exercised during the year | (620,221) |
| Cancelled/lapsed during the year | (602,812) |
| Outstanding at the end of the year | 3,962,151 |

### 17. SHARE-BASED PAYMENTS

**Group and Company**

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2012 is £411 (2010 - £401)

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year

| | 2012 Number of share options | 2012 Weighted average exercise price | 2011 Number of share options | 2011 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 3,949,184 | £0 001 | 3,635,767 | £0 001 |
| Granted during the year | 1,236,000 | £0 001 | 842,682 | £0 001 |
| Exercised during the year | (620,221) | £0 001 | (169,505) | £0 001 |
| Cancelled/lapsed during the year | (602,812) | £0 001 | (359,760) | £0 001 |
| Outstanding at the end of the year | 3,962,151 | £0 001 | 3,949,184 | £0 001 |

For the share options outstanding as at 31 December 2012, the weighted average remaining contractual life is 8 0 years (2011 - 8 33 years)

The weighted average share price at the date of exercise for the options exercised is £0 001

The weighted average fair value of options granted during the year was £0 00041 (2011 - £0 00046)

## NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

### 17. SHARE-BASED PAYMENTS (continued)

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted The following table lists the inputs to the model used for the year ended 31 December 2012

| | 2012 |
|---|---|
| Dividend yield | 0 0% |
| Expected life of options | 10 years |
| Average risk-free interest rate | 1 9% |
| Volatility | 28 0% |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome

### 18. STATEMENT OF MOVEMENT ON RESERVES

**Group**

| | Share premium account £ | Profit and loss account £ | Total £ |
|---|---|---|---|
| At 1 January 2012 | 7,797,619 | (31,158,269) | (23,360,650) |
| Loss for the year | - | (13,580,862) | (13,580,862) |
| FRS25 adjustment from change in terms of the preferred shares | 19,310,000 | 8,813,893 | 28,123,893 |
| Share-based payment | - | 411 | 411 |
| Exchange difference on re-translation of net assets of subsidiary undertakings | - | (802) | (802) |
| At 31 December 2012 | 27,107,619 | (35,925,629) | (8,818,010) |

**Company**

| | Share premium account £ | Profit and loss account £ | Total £ |
|---|---|---|---|
| At 1 January 2012 | 7,797,619 | (31,143,326) | (23,345,707) |
| Loss for the year | - | (13,493,947) | (13,493,947) |
| FRS25 adjustment from change in terms of the preferred shares | 19,310,000 | 8,813,893 | 28,123,893 |
| Share-based payment | - | 411 | 411 |
| At 31 December 2012 | 27,107,619 | (35,822,969) | (8,715,350) |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

## 19 RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' DEFICIT

| | 2012 £ | 2011 £ |
|---|---|---|
| Loss for the financial year | (13,580,862) | (14,721,570) |
| Exchange difference on re-translation of net assets of subsidiary undertakings | (802) | (360) |
| Share-based payment | 411 | 401 |
| Issue of shares (net of expenses) | 1,044 | (21,272) |
| Credit of finance charge from FRS 25 adjustment (note 18) | 28,123,893 | - |
| Net (decrease) increase in shareholders' deficit | 14,543,684 | (14,742,801) |
| Opening shareholders' deficit | (22,241,586) | (7,498,785) |
| Closing shareholders' deficit | (7,697,902) | (22,241,586) |

## 20. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating loss to net cash outflow from operating activities

| | 2012 £ | 2011 £ |
|---|---|---|
| Group operating loss | (12,966,865) | (9,027,286) |
| Depreciation of tangible fixed assets | 201,003 | 110,745 |
| Amortisation of goodwill | 14,726 | 14,726 |
| Loss on disposal | 558 | 1,124 |
| Share-based payment | 411 | 401 |
| Increase in provision for dilapidations | 3,000 | 15,000 |
| Decrease in debtors | 103,063 | 459,253 |
| Decrease/(increase) in stocks | 663,646 | (252,837) |
| Increase in creditors | 2,906,518 | 632,747 |
| Foreign exchange adjustment | (646) | (1,124) |
| Net cash outflow from operating activities | (9,074,586) | (8,047,251) |

(b) Analysis of net (debt) funds

| | At 1 January 2012 £ | Cash flow £ | Exchange differences £ | At 31 December 2012 £ |
|---|---|---|---|---|
| Cash at bank and in hand | 5,674,097 | (1,921,426) | (388) | 3,752,283 |
| Loans | (2,000,000) | (8,015,420) | - | (10,015,420) |
| Net (debt) funds | 3,674,097 | (9,936,846) | (388) | (6,263,137) |

## NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

### 20. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(c) Reconciliation of net cash flow to movement in net (debt) funds

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| Decrease in cash | | (1,921,426) | (1,576,559) |
| Cash inflow from increase in loans | | (8,015,420) | (2,000,000) |
| Cash inflow from short-term deposits | | - | (4,500,000) |
| Change in net cash resulting from cash flows | | (9,936,846) | (8,076,559) |
| Exchange differences | | (388) | 430 |
| Movement in net cash | | (9,937,234) | (8,076,129) |
| Net funds at beginning of the year | | 3,674,097 | 11,750,226 |
| Net (debt) funds at end of the year | 20 (b) | (6,263,137) | 3,674,097 |

### 21. OPERATING LEASE COMMITMENTS

At 31 December 2012 the group was committed to making the following payments during the next year in respect of operating leases

| | Land and buildings 2012 £ | 2011 £ |
|---|---|---|
| Leases which expire | | |
| Less than one year | 30,899 | 41,043 |
| Between two to five years | 233,004 | 68,000 |

At 31 December 2012 the company was committed to making the following payments during the next year in respect of operating leases

| | Land and buildings 2012 £ | 2011 £ |
|---|---|---|
| Leases which expire | | |
| Less than one year | 30,181 | 40,318 |
| Between two to five years | 202,284 | 68,000 |

In February 2012, Alertme com Limited signed a 10 year lease which includes a break clause after 3 years, and a 4 month rent free period The annual rental is £202,284 and the company is committed to make a payment of £117,999 in 2012

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2012

### 22. RELATED PARTY TRANSACTIONS

The company has made sales of products and services of £7,145,239 (2011 - £7,199,589) to an affiliate of GB Gas Holding Limited which became a shareholder in September 2010 These sales have been made on normal contract terms

### 23. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party

### 24. POST BALANCE SHEET EVENT

In May 2013, an equity funding round of £6 75m was successfully closed The first £3 0m was subscribed for in May 2013 and 2,010,456 B Preferred shares were issued The remaining £3 75m was subscribed for in August 2013 and a further 2,513,070 B Preferred shares were issued In May 2013, concurrent with the funding close, Bridge loans secured in 2012 of £9 5m converted into 7,261,670 B Preferred shares