

Report IV

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C-NESTTM
MARKETING

From the desk of Rod Lighthipe;

As I mentioned in last month's report, we remain very busy as a result of sales leads that were acquired at the meeting of Rural Electric Cooperatives in Anaheim, California during late February. During March and April, I have visited three potential customers and I believe we have excellent prospects of deploying meters with at least two of these groups.

Other promising events during March included the emergence of an opportunity with a "House of the Future" project where CNES has been invited to install our technology. At this time, it appears that we will be monitoring and displaying the electrical output of a roof top solar energy system and also reading the entire electric energy usage of this House of the Future. I expect some great publicity and National exposure as a result of this project.

During March we also began discussions with a water meter wireless technology group. The talks have centered on ConectiSys opening its network such that we will read both electric and water consumption at single family residences and multi-family sites.

I will keep our shareholders advised as we continue to make progress on placing our meters and networks with various customers throughout the United States.

Regards,

Rod Lighthipe
Director of Business Development

Article of the Month

AMR and AMI market estimated to reach \$2.27 billion in 2012

Due to the complexity of automatic meter reading (AMR) and advanced meter infrastructure (AMI) systems, utilities no longer seek the low-cost meter manufacturer to do business with, according to new analysis from consulting firm Frost & Sullivan. Utilities are instead choosing a firm that can offer a total solution, the analysis shows. This means offering not just meters, but consulting, integration and installation services to acquire the most valuable and cost-effective AMR or AMI for its electric, water or gas distribution system.

The new analysis, "Utility Revenue Meter Market," reveals that the market earned revenues of \$1.15 billion in 2006 and is estimated to reach \$2.27 billion in 2012.

"Under pressure from regulators to improve reliability, utilities see AMR/AMI technology as part of a wider system that can respond to outages more quickly," said Frost & Sullivan program manager Roberto Torres. "Scrutinized by Wall Street following the electro-financial crises of 2001 to 2002, utilities are looking to AMR/AMI to lower costs, improve operating efficiencies and enhance their financial statements."

Utility finances have improved significantly from 2002 and 2003, providing additional budget to undertake AMR/AMI projects which have been contemplated for some time, according to the analysis. The meter industry expects to enjoy a period of prosperity for five to 10 years into the future. The saturation rate of solid-state meters is fairly low, and the push to replace mechanical meters is strong.

However, it has become evident now that to survive in the market, meter vendors can no longer sell meters alone, according to the analysis. Vendors must offer AMR or AMI solutions that offer improved margins and strengthen the statement of income. The advent of AMR and AMI can either be a boon or a bane, depending on whether meter vendors can position themselves in the market to take advantage of the evolving industry structure.

“In the present environment, new market participants have entered the marketplace, namely developers of AMR/AMI technology and familiar global firms who make neither meters nor AMR/AMI technology but have electronics and systems integration expertise, such as Honeywell,” Torres said. “The challenge for meter vendors today is to form alliances that will allow them to carve out more of the growing AMR/AMI-driven revenues, either as prime contractors or subcontractors.”

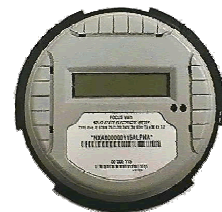
Meter vendors and AMR/AMI companies have acquired each other in recent years, and the shape of the industry evolves into one in which AMR/AMI companies and meters manufacturers are not separate companies, but one and the same. Should this trend continue, as seems likely, those meter vendors who do not pursue savvy alliances or acquisitions will cease to exist as viable participants in the market, the analysis concludes.

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