

Water Intelligence plc (AIM: WATR)

("Water Intelligence" or the "Group")

Trading Update for the year ended 31 December 2010

Water Intelligence, a leading provider of water monitoring products and leak detection and remediation services, provides the following trading update for the year ended 31 December 2010.

Background

Water Intelligence launched its products business following completion of the reverse takeover of Connectis plc by American Leak Detection Holding Corp. in July 2010.

The Group's strategy is to become a 'one-stop shop' for leak alerts and precision, non-invasive leak detection and remediation.

Since admission to AIM, management effort has been focused on integration, growing a profitable base business providing leak detection services and opening up UK operations to accelerate growth in H2 2011 and 2012 in terms of both water monitoring products and leak detection services.

Essentially, all of the Group's revenue in the year ended 31 December 2010 came from its wholly-owned subsidiary, American Leak Detection Inc. ("ALD"). Revenue was initiated in the UK post-merger in both products and services.

Unaudited Group results for the year

The Group results for 2010 constitute 12 months trading by ALD, the Group's principal and wholly-owned operating subsidiary, and five months trading from UK operations, including plc costs. The Board expects, subject to audit, to report aggregate revenues of US \$5.6 million compared with US \$5.5 million for 2009.

Excluding one-off transaction costs incurred in connection with the reverse takeover and admission to AIM, and subject to audit, the Group expects to report a small profit before tax. The Group incurred a loss in the period from August to December, being the five months since the reverse takeover.

American Leak Detection

ALD has its headquarters in California and provides, through a mix of franchisees and corporate owned stores, non-invasive water leak detection and remediation services throughout the US, as well as in Australia, Belgium, Canada, Spain, United Kingdom and certain other countries. ALD's unaudited royalty income was up 5 per cent in second half of 2010 and up 2 per cent for the full year in 2010. Performance may be summarised as follows:

	2010 US \$'000	2009 US \$'000	Change %
H2 2010			
Royalty income from franchisees	1,882	1,788	+5%
Company Stores and other income	782	776	+1%
	<hr/> 2,664	<hr/> 2,564	<hr/> +4%
Full year 2010			
Royalty income from franchisees	3,876	3,817	+2%
Company Stores and other income	1,706	1,728	-1%
	<hr/> 5,582	<hr/> 5,545	<hr/> +1%

ALD has continued to experience regional differences across the US. In H2 2010, compared with the same period in 2009, royalty income in the US rose 5 per cent. For the same time period

royalty income from franchisees located in the northeast and southeast rose 10 per cent to 16 per cent while the remaining areas in the US rose by 1 per cent to 3 per cent.

For the full year, royalty income in the US rose 2 per cent in 2010 compared with same period in 2009. Royalties from franchisees in the southeast region rose by 12 per cent, while royalty income from franchisees in California, Nevada and Arizona decreased by 4 per cent, generally due to the slumping real estate market as well as higher than national average unemployment. The remaining areas in the US in aggregate were generally stable.

Approximately 7 per cent of ALD's royalty income arose outside the US in H2 2010 and 6 per cent for the year. Royalty income from outside the US, of which approximately 39 per cent arose in Australia, was up 13 per cent in H2 2010 and up 26 per cent for the full year.

UK activities

As announced on 7 September 2010, the Group received a significant order for its 'Leakfrog' product from Thames Water plc for an aggregate purchase price of £177,000 (\$265,000 at \$1.50: £1.00). Almost one-sixth of this order had been delivered to Thames Water plc by 31 December 2010, with the remainder of the order currently expected to be completed during the First Quarter of 2011. Revenues are recorded upon completion. There were no other material revenues from UK activities since the reverse takeover in July 2010.

The Group is pursuing a two-pronged development strategy in the UK, with plans to replicate the ALD model over time through the establishment of a nationwide leak detection services business, and through the development and launch of further water leak detection products.

Significant progress is being made on the products side of the UK business with the Group in active discussions with certain major water utilities in the UK in relation to the development and commercialisation by Water Intelligence of a new hi-tech device that will allow metered domestic water users to monitor their own water use and identify when a leak has occurred.

The new device represents a broadening of the Company's existing "Leakfrog" technology, which was developed in conjunction with Thames Water, and is being designed to allow households to monitor water usage, usage over the previous day, week or month and the projected cost of their annual water bill, based on the usage at that time. The device will utilise Leakfrog technology at its core and also alert the customer when a leak pattern is detected.

On the services side, ALD appointed a UK Master Franchisee on 6 October 2010. Whilst not material to the Group's performance in 2010, initial progress in the UK has been slower than the Board's expectations.

Unaudited Net Debt

	31 December 2010	31 August 2010 As previously reported
	US\$ '000	US\$ '000
6 Year Term Loan	3,825	4,000
Lease Finance	102	119
	<hr/> 3,927	<hr/> 4,119
Less: Cash		
<i>Held in US Dollars</i>	447	460
<i>Held in £ Sterling</i>	155	803
	<hr/> 602	<hr/> 1,263
Total Net Debt	<hr/> <hr/> 3,325	<hr/> <hr/> 2,856

Net Debt between 31 August and 31 December 2010 was adversely impacted by the payment of certain one-off costs connected with the creation of Water Intelligence together with the level of overheads, especially in the UK as the Group seeks to initiate revenues from its product business.

Outlook

The Board expects a steady growth in its leak detection services business, especially as macro-economic conditions improve in the US and given the large addressable market and franchise revenue growth in international locations. Progress needs to be made to develop the Group's UK services business. Active steps are being taken to manage the Group's overheads now that integration is complete.

The Group is encouraged by strong initial interest from UK water utilities for its new product suite, in particular, the new domestic monitoring device referred to above. Whilst significant development and testing work remains to be done, the Board anticipates that the new product suite will deliver revenues by the end of 2011. In addition, the Group will attempt to leverage any new product opportunities in US markets to reinforce growth for the services businesses of ALD's franchisees.

Dr. Patrick DeSouza, Executive Chairman of **Water Intelligence**, commented:

"We are pleased to have made positive steps in creating a broad-based services and products business with solid and growing operations in the US and exciting potential in the UK."

"The long-term value proposition of our "one-stop shop" strategy in delivering solutions for water leakage was re-affirmed in recently published figures from Ofwat, the water industry regulator for England and Wales, on the scale of leakage. Water leakage is a big issue everywhere. We look forward to building our business both in the US and internationally, especially the UK."

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