

Water Intelligence plc (AIM: WATR.L)

("Water Intelligence", the "Group" or the "Company")

Interim Results for the six months ended 30 June 2014

Water Intelligence, a leading provider of smart water monitoring products and non-invasive leak detection and remediation services, is pleased to present its interim results for the period ended 30 June 2014.

Results Highlights

- Revenue of \$3.51 million in line with the prior period (2013: \$3.54 million)
- More significantly, royalty income component growth of 6.6% to \$2.55 million (2013: \$2.39 million)
- Strong cash balance of \$1.9 million (2013: \$769,518)
- Net Debt as of 30 June 2014 \$0.84 million, down over 50% from 30 June 2013 (2013: \$1.77 million)
- Refinanced existing credit facility with Liberty Bank
- Team in place to execute growth plan for insurance sales channel

Patrick DeSouza, Executive Chairman of Water Intelligence, commented:

"We are pleased with the progress in our core franchise services business and remain confident in our ability to sustain the progress achieved in the first 6 months of this year while also taking further advantage of favourable market demand for water infrastructure solutions."

Water Intelligence plc

Patrick DeSouza (Executive Chairman)

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Executive Chairman's Statement

During the first half of 2014, we achieved two objectives that reinforce our strategic growth plan. First of all, we built a strong balance sheet that enables us to make investments for long-term sustainable growth. As noted in our annual report as a subsequent event, on 27 June 2014, we refinanced our existing credit facility with Liberty Bank. As of 30 June 2014 we had \$1.91 million in cash. Net debt was reduced by more than 50% from \$1.77 million at 30 June 2013 to \$0.84 million at 30 June 2014. Furthermore, our term loan has been reset for another five years and our monthly amortisation cost has been reduced approximately 30% freeing up cash on a monthly basis for additional investments. Secondly, we maintained strong growth in our core American Leak franchise business. Royalty income growth accelerated to 6.6% when comparing 1H 2014 to 1H 2013. This growth compares favourably to overall 2013 royalty growth of 6% and growth of 5% when comparing 1H 2013 to 1H 2012. With our balance sheet and organic franchise royalty growth, we have a solid foundation to grow our business.

In operational terms, the first half of this year reflected certain positive changes in the composition of execution priorities with revenue and profits for the period remaining stable. Revenue remained at \$3.51 million compared with \$3.54 million for 1H 2013. Profits before tax adjusted for non-cash amortisation expense remained at \$762,001 for 1H compared with \$761,587 for 1H 2013. Between our top and bottom lines, we actually increased operating expense 5.8% to \$2.42 million, reflecting additional headcount for executing our growth plan with respect to exploiting an insurance sales channel. Increased spending on business development, however, was offset by a 29.7% drop in financing expense. With increased headcount for growing our core franchise services business, we are hopeful that revenue growth will increase over the next twelve months.

Moreover, while we focused on fuelling franchise services royalty growth, we recognise that product and equipment sales also need support. Product and equipment sales during 1H lagged at \$265,927 compared with \$451,835 during 1H 2013. This drop in product and equipment sales was mostly offset by the increase in franchise royalty income noted above. As stated in the 2013 annual report, UK product sales to water utilities have been slow and we have moved to cut expenses in this business line. Such reductions will take effect during 2H. Meanwhile, we recognise that 1H 2013 product sales were carried by the US-developed *Leakfinder* product. With our US-based franchise business growing, we plan to invest in additional inventory of *Leakfinders* and US product and equipment to generate sales to complement our core services business. We note that with our balance sheet, we do have flexibility going forward to recast our UK product business in ways geared for sales to residential and commercial users as opposed to utilities.

As articulated in our 2013 annual report, demand for water management services remains strong in the US and around the world. We now have the ability to fuel growth as a result of our balance sheet progress in 1H. As set forth in our annual report, we are focussed on three areas: franchise system royalty; corporate store sales; and other activities, especially product and equipment sales. We are pleased with our progress on our core franchise services business. With our balance sheet, we plan to add resources to support our other two business lines – corporate stores and product and equipment sales and further capture market demand for our value proposition.

Interim Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2014

		Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Notes	\$	\$	\$
Revenue	4	Unaudited 3,513,737	Unaudited 3,537,598	Audited 6,816,008
Cost of sales		(260,613)	(384,129)	(559,171)
Gross profit		3,253,124	3,153,469	6,256,837
Administrative expenses				
Share-based payments		(6,592)	(10,459)	(21,187)
- Amortisation of intangibles		(149,621)	(146,357)	(332,164)
- Other administrative costs		(2,416,510)	(2,284,025)	(5,109,262)
Total administrative expenses		(2,572,723)	(2,440,841)	(5,462,613)
Operating profit		680,401	712,628	794,224
Finance income		8,443	11,436	23,624
Finance expense		(76,464)	(108,834)	(205,954)
Profit before tax		612,380	615,230	611,894
Taxation expense		(270,521)	(253,817)	(157,783)
Profit for the period		341,859	361,413	454,111
Other comprehensive income				
Exchange differences arising on translation of foreign operations		(30,856)	38,562	(18,792)
Total comprehensive profit for the period		311,003	399,975	435,319
Earnings per share		Cents	Cents	Cents
Basic	5	3.2	3.8	4.7
Diluted	5	3.1	3.6	4.5

Consolidated Statement of Financial Position as at 30 June 2014

	At 30 June 2014	At 30 June 2013	At 31 December 2013
	\$	\$	\$
	Unaudited	Unaudited	Audited
ASSETS			
Non-current assets			
Goodwill	899,868	801,211	801,211
Other intangible assets	3,110,529	3,436,418	3,258,101
Property, plant and equipment	55,601	17,634	11,313
Trade and other receivables	23,053	25,436	19,073
	4,089,051	4,280,699	4,089,698
Current assets			
Inventories	155,536	158,737	145,293
Trade and other receivables	889,565	886,764	750,006
Cash and cash equivalents	1,909,954	769,518	792,468
	2,955,055	1,815,019	1,687,767
TOTAL ASSETS	7,044,106	6,095,718	5,777,465
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	12,732,564	12,716,863	12,732,564
Share premium	4,800,610	4,203,812	4,800,610
Capital redemption reserve	6,517,644	6,517,644	6,517,644
Merger reserve	8,501,150	8,501,150	8,501,150
Share based payment reserve	117,272	99,952	110,680
Other reserves	(91,300)	(3,090)	(60,444)
Reverse acquisition reserve	(27,758,088)	(27,758,088)	(27,758,088)
Retained loss	(1,599,648)	(2,034,205)	(1,941,507)
	3,220,204	2,244,038	2,902,609
Non-current liabilities			
Borrowings	2,303,897	1,613,714	1,263,111
Provision of onerous contracts	-	51,135	12,901
Deferred tax liability	410,235	377,001	195,319
	2,714,132	2,041,850	1,471,331
Current liabilities			
Trade and other payables	622,564	844,287	642,559
Borrowings	446,103	928,535	706,600
Provision of onerous contracts	41,103	37,008	54,366
	1,109,770	1,809,830	1,403,525
TOTAL EQUITY AND LIABILITIES	7,044,106	6,095,718	5,777,465

Interim Consolidated Statement of Changes in Equity
For the six months ended 30 June 2014

	Share Capital	Share Premium	Capital Redemption Reserve	Reverse Acquisition Reserve	Merger Reserve	Share based payment reserve	Other Reserves	Retained Losses	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$	\$
As at 1 January 2013	12,716,863	4,203,812	6,517,644	(27,758,088)	8,501,150	89,493	(41,652)	(2,395,618)	1,833,604
Share based payment expense	-	-	-	-	-	10,459	-	-	10,459
Total Comprehensive Income	-	-	-	-	-	-	38,562	361,413	399,975
As at 30 June 2013 (unaudited)	12,716,863	4,203,812	6,517,644	(27,758,088)	8,501,150	99,952	(3,090)	(2,034,205)	2,244,038
Issue of ordinary shares	15,701	596,798	-	-	-	-	-	-	612,499
Share based payment expense	-	-	-	-	-	10,728	-	-	10,728
Total comprehensive loss	-	-	-	-	-	-	(57,354)	92,698	35,344
As at 31 December 2013 (audited)	12,732,564	4,800,610	6,517,644	(27,758,088)	8,501,150	110,680	(60,444)	(1,941,507)	2,902,609
Share based payment expense	-	-	-	-	-	6,592	-	-	6,592
Total comprehensive profit	-	-	-	-	-	-	(30,856)	341,859	311,003
As at June 2014 (unaudited)	12,732,564	4,800,610	6,517,644	(27,758,088)	8,501,150	117,272	(91,300)	(1,599,648)	3,220,204

Interim Consolidated Statement of Cash Flows
For the six months ended 30 June 2014

		Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Notes	\$ Unaudited	\$ Unaudited	\$ Audited
Net cash generated from operating activities	6	582,702	752,514	885,299
Cash flows from investing activities				
Interest received		8,443	11,436	23,624
Interest paid		(76,464)	(108,835)	(205,954)
Purchase of plant and equipment		(46,000)	(6,403)	(6,403)
Purchase of intangible assets		-	-	-
Additional goodwill		(98,657)	-	-
Net cash used in investing activities		(212,678)	(103,802)	(188,733)
Cash flows from financing activities				
Issue of share capital		-	-	15,701
Share premium from placing		-	-	596,798
Proceeds from borrowings		1,040,786	-	-
Draw down of revolving credit facility		-	250,000	250,000
Principal payments on long term debt		(260,497)	(309,968)	(881,054)
Repayment of revolving credit facility		-	(248,547)	(250,000)
Net cash used in financing activities		780,289	(308,515)	(268,555)
Net increase in cash and cash equivalents		1,150,393	340,197	428,011
Cash and cash equivalents at the beginning of period		792,468	382,525	382,525
Effect of foreign exchange rate changes		(32,907)	46,796	(18,068)
Cash and cash equivalents at end of period		1,909,954	769,518	792,468

**Notes to the Interim Consolidated Financial Information
for the six months ended 30 June 2014**

1 General information

The Group is a leading provider of water monitoring products and non-invasive, leak detection and remediation services. The Group's strategy is to be a "one-stop shop" of water leak solutions for residential, commercial and municipal customers.

The Company is a public limited company domiciled in the United Kingdom and incorporated under registered number 03923150 in England and Wales. The Company's registered office is 201 Temple Chambers, 3-7 Temple Avenue, EC4Y 0DT.

2 Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective in the six months to 30 June 2014 which had a material effect on this interim consolidated financial information.

3 Significant accounting policies

Basis of preparation

The accounting policies adopted are consistent with those of the previous financial year.

This interim consolidated financial information for the six months ended 30 June 2014 has been prepared in accordance with IAS 34, 'Interim financial reporting'. This interim consolidated financial information is not the Group's statutory financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis of matter without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The interim consolidated financial information for the six months ended 30 June 2014 is unaudited. In the opinion of the Directors, the interim consolidated financial information presents fairly the financial position, and results from operations and cash flows for the period. Comparative numbers for the six months ended 30 June 2013 are unaudited.

This interim consolidated financial information is presented in US Dollars (\$), rounded to the nearest dollar.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Foreign currencies

(i) Functional and presentational currency

Items included in this interim consolidated financial information are measured using the currency of the primary economic environment in which each entity operates ("the functional currency") which is considered by the Directors to be the Pounds Sterling (£) for the Parent Company and US Dollars (\$) for American Leak Detection Holding Corp. This interim consolidated financial information has been presented in US Dollars which represents the dominant economic environment in which the Group operates and is considered to be the functional currency of the Group. The effective exchange rate at 30 June 2014 was £1 = US\$ 1.70280 (30 June 2013: £1 = US\$ 1.52084).

Critical accounting estimates and judgments

The preparation of interim consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of

assets and liabilities and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the resulting accounting estimates will, by definition, seldom equal the related actual results.

In preparing this interim consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

4 Revenues

In the opinion of the Directors, the operations of the Group currently comprise three operating segments, being the franchises, corporate owned stores and other activities including product and equipment sales.

The Group mainly operates in the US, with operations in the UK and certain other countries. In the six months to 30 June 2014, 97% of its revenue came from the US based operations; the remaining 3% of its revenue came from either UK or overseas based operations.

No single customer accounts for more than 10% of the Group's total external revenue.

Segment information

The Group adopted IFRS 8 Operating Segments with effect from 1 July 2008. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group.

Information reported to the Group's Chief Operating Decision Maker (being the Executive Chairman), for the purpose of resource allocation and assessment of division performance is separated into three segments:

- Franchisor royalties;
- Corporate-operated stores; and
- Other activities including product and equipment sales.

The following is an analysis of the Group's revenues, results from operations and assets:

Revenue	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Unaudited	Unaudited	Audited
Royalties from franchisees	2,547,269	2,389,446	4,610,363
Corporate-operated Stores	700,541	696,317	1,447,655
Other activities	265,927	451,835	757,990
Total	3,513,737	3,537,598	6,816,008

Profit before tax	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Unaudited	Unaudited	Audited
Royalties from franchisees	818,664	924,042	1,208,652
Corporate-operated Stores	43,606	21,441	5,302
Other activities	(2,862)	(94,058)	28,297
Unallocated head office costs	(247,028)	(236,195)	(630,357)
Total	612,380	615,230	611,894

Assets	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	\$	\$	\$
	Unaudited	Unaudited	Audited
Royalties from franchisees	6,875,730	4,896,861	5,505,396
Corporate-operated Stores	385,921	278,329	268,885
Other activities	(217,545)	920,528	3,184
Total	7,044,106	6,095,718	5,777,465

For the purpose of monitoring segmental performance, no liabilities are reported to the Group's Chief Operating Decision Maker.

Geographic information

Total revenue

Total revenue from activities by geographical area is detailed below:

Revenue by geography	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	\$	\$	\$
	Unaudited	Unaudited	Audited
US	3,393,737	3,418,598	6,452,396
International	120,000	119,000	363,612
Total	3,513,737	3,537,598	6,816,008

Revenue from franchisor activities by geographical area is detailed below.

Royalties from franchisees	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	\$	\$	\$
	Unaudited	Unaudited	Audited
US	2,427,269	2,270,446	4,357,523
International	120,000	119,000	252,840
Total	2,547,269	2,389,446	4,610,363

5 Earnings per share

The earnings per share has been calculated using the profit for the period and the weighted average number of ordinary shares outstanding during the period, as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Unaudited	Unaudited	Audited
Earnings attributable to shareholders of the Company (\$)	341,859	361,413	454,111
Weighted average number of ordinary shares	10,567,650	9,604,417	9,695,917
Diluted weighted average number of ordinary shares	10,909,511	9,965,830	10,150,028

Earnings per share (cents)	3.2	3.8	4.7
Diluted earnings per share (cents)	3.1	3.6	4.5

The Company issued nil share options in the six months to 30 June 2014 (six months to 30 June 2013: nil).

6 Notes to the statement of cash flows

	Six months ended 30 June 2014 \$ Unaudited	Six months ended 30 June 2013 \$ Unaudited	Year ended 31 December 2013 \$ Audited
Cash flows from operating activities			
Profit/(Loss) before interest and taxation	680,401	712,628	794,224
Adjustments for:			
Depreciation of plant and equipment	1,717	5,632	11,972
Amortisation of intangible assets	149,621	146,357	332,164
Gain on disposal of fixed asset	-	-	-
Share based payments	6,592	10,459	21,187
Operating cash flows before movements in working capital	838,331	875,076	1,159,547
(Increase)/Decrease in inventories	(10,243)	35,270	48,714
(Increase)/Decrease in trade and other receivables	(143,540)	(30,683)	83,007
Increase/(Decrease) in trade and other payables	(46,161)	(100,539)	(323,144)
Cash generated by operations	638,387	779,124	968,124
Income taxes	(55,605)	(26,610)	(82,825)
Net cash generated from operating activities	582,782	752,514	885,299

7 Refinancing

On June 27, 2014, the Group finalised the refinancing of its term loan agreement with Liberty Bank. The borrowing has been increased to \$2,750,000 or approximately \$1,000,000 of new cash. The term of the loan has been reset for 5 years to 2019. Interest on the loan shall be fixed for the first three years at 5.75%. Amortisation shall be approximately \$53,000 monthly. Through Q1 2014, amortisation was approximately \$70,000 monthly. The Group has also renewed its commercial line of credit with Liberty Bank. The line is equal to \$250,000 and carries with it an interest rate equal to the Wall Street Journal Prime, plus two and three quarter percent. The Group is not drawing on the line of credit at this time.

8 Publication of announcement and the Interim Results

A copy of this announcement will be available at the Company's registered office (201 Temple Chambers, 3-7 Temple Avenue, EC4Y 0DT) from the date of this announcement and on its website – www.waterintelligence.co.uk. This announcement is not being sent to shareholders.