RNS Number : 9383A
Water Intelligence PLC
13 June 2016

Water Intelligence plc (AIM: WATR.L)
("Water Intelligence", the "Group" or the "Company")
Results for the year ended 31 December 2015

Water Intelligence, a leading provider of non-invasive leak detection and remediation solutions, is pleased to present its full, audited results for the year ended 31 December 2015.

Copies of the Annual Report will be made available to view on the Company's website at www.waterintelligence.co.uk.

Results Highlights

- Total revenue increased 23% to $8.84 million
- All major components of revenue grew strongly
- Royalty income from franchisee-executed sales increased 6% to $5.22 million
- Revenue from corporate-executed sales increased 79% to $2.61 million
- Product and Equipment sales increased 23% to $0.92 million as franchisees reinvest for growth
- Corporate staff grew from 50 to 63 to execute growth strategy
- Profits before tax increased 66% to $972,440
- rofits per share grew 53% to $0.055 per share
- ranchise reacquisition strategy launched successfully with New York, Miami, Detroit
- Very positive start to 2016

Dr. Patrick DeSouza, Executive Chairman of Water Intelligence, commented:
"We are pleased with the 2015 results and the good start to 2016. The strategy for future growth, put in place by the board, is starting to show results. With recent additions to the management team, we are raising our sights for building a multinational growth company. Market demand for solutions to water loss is only increasing."

Water Intelligence plc
Patrick DeSouza (Executive Chairman) Tel: +1 203 654 5426

WH Ireland Limited
Adrian Hadden / James Bavister Tel: 020 7220 1666

Chairman's Statement

Introduction

Our corporate growth strategy is having a positive effect on the Company. We are pleased to report our 2015 results. We have achieved significant growth in both our top-line and bottom-line numbers. This momentum has also continued during the first third of 2016. We have continued to bolster our management team and have increased the size of our staff as we prepare the way to execute a robust growth trajectory.

Future Growth / Potential Dividend Strategy

During the first quarter of 2016, we completed shareholder actions that provide us the flexibility to issue dividends and buy back shares when compatible with the reinvestment requirements of our growth plan. Hence, as we roll further into 2016, our competitive strategy, customer demand, franchisee and corporate execution and shareholder considerations are all well-aligned. Going forward, we plan to communicate more fully on the value that such alignment should realize for our shares.

We appreciate the support of our franchisees and our shareholders in building our brand. Hence, the board and management make two commitments: First, our operating expenses will continue to be geared towards fueling the growth of our franchisees. We already see the benefits for sustainable growth from providing our water loss solutions using a business-to-business focus in areas such as insurance and property management. As part of our commitment to our franchisees, we will also begin to increase R&D spending to ensure our long-run competitive edge. Our 2016 annual convention in November will be located near Silicon Valley to promote our technology value proposition for minimally-invasive water leak detection. Second, subject to achieving anticipated operating performance targets and meeting reinvestment needs to support our franchisees and reacquisition strategy, we plan to recommend a dividend for our shareholders at year-end. We look forward reinforcing our alignment among management, franchisees and shareholders.

Trading Results

We continue to see an increase in customer demand for our minimally-invasive solutions to stem water loss. Total revenue increased 23% year-over-year to $8.84 million. Further, each component of total revenue had meaningful growth. First, franchise royalty income increased 6% to $5.22 million. Considering that our franchisees pay us a royalty fee based on a percentage of their gross sales, this component of Water Intelligence revenue implied approximately $70 million in system-wide sales to the end-customers of our company. Our franchisee units themselves are growing at a rate faster than our 6% royalty growth because our royalty charges reduce as franchisees reach higher and higher levels of their own sales. Last year we added 4 new members to the "Million Dollar Sales Club" bringing the total to 25. Second, corporate-executed sales increased 79% to $2.61 million. Some of that significant growth is attributable to our corporate strategy of selectively reacquiring franchises to incorporate a portion of the $70 million of system-wide sales onto the books of Water Intelligence. Finally, product and equipment sales grew approximately 23% during 2015. This revenue component is important because it is an indicator of franchisee reinvestment for future growth in sales.

The strength of market demand has enabled us to maintain or, in some cases, even raise pricing. Combined with improvements in execution, we have achieved strong growth in operating profits. For 2015, profits before tax grew 66% to $972,440. Such increase in profits did not come at the expense of making the right investments to support future growth. Total administrative costs grew during 2015 by 16% to $6.95 million with an increase in corporate headcount to 63 from 50 in 2014.

Unlocking Shareholder Value: Franchise Reacquisition Strategy

As discussed in prior Chairman's Statements, Water Intelligence's corporate strategy is two-fold: First, grow our business footprint - both franchise-executed and corporate executed sales - through national customer channels such as insurance and property management; and second, add critical mass to Water Intelligence revenue and earnings by selectively reacquiring a portion of the approximately $70 million of current system-wide sales. Both franchisor and franchisees have come to see such a reacquisition plan as a mutually-beneficial proposition. Each franchisee has an opportunity to realize his investment in the franchise when the time is right. Meanwhile, especially through the business to business channel, our franchise business can drive more growth synergies with its customers, who have come to rely on the brand.

In executing our reacquisition strategy, management has a defined roadmap that has as its ultimate goal the formation of a multinational growth company. Several criteria establish franchise selection priorities: (i) geographic location to contribute to the formation of a corporate infrastructure that spans the US, as well as, Commonwealth countries of UK, Canada and Australia; (ii) customer base for the piloting / testing of new service offerings; (iii) underperformance of an existing franchise affording the opportunity for rapid "turnaround" growth; (iv) quality revenue and earnings of an existing franchise affording the opportunity to blend stable growth with "turnaround" growth; and (v) synergies with surrounding franchises to speed franchise growth at a regional level.

As announced, during Q1 2015, we launched our strategy to unlock value with three franchise reacquisitions: Miami, New York and Detroit. Miami and New York were selected to address underperformance of existing franchisees. Through Q1 2016, we have achieved significant sales growth in these locations. Detroit was selected as part of a retirement plan for a franchisee with dependable revenue and earnings. Through Q1 2016, we have achieved solid earnings growth in Detroit and have provided a case study for our franchisees of a mutually beneficial partnership.

Moreover, Miami and New York built upon existing corporate operations in nearby Fort Lauderdale and Boston, respectively, to form regional corporate centers in the Southeast and Northeast of the U.S. Detroit, meanwhile, along with a 2016 transaction involving Cincinnati, will form the basis for a Midwest corporate presence in the U.S.

Bottom-line: Corporate-executed sales grew year-over-year 79% to $2.61 million while achieving a 5.7% margin that amounted to $148,040 in profits. We anticipate continued strong sales growth and higher margins in 2016, especially since the swing in profits for corporate-executed sales went from ($45,991) in 2014 to $148,040 in 2015.

Outlook

As noted above, we have a significantly strengthened management team that is able to execute an ambitious growth strategy. First, we continue to expand our sales footprint and our franchise business thus ensuring the growth of royalty income. Second, we continue to unlock revenue and earnings through franchise reacquisitions. Based on the positive results from our current selection criteria, we will look to make similar reacquisition choices during 2016 and 2017. Some of the reacquisitions will be underperforming franchises so that we can achieve faster headline growth. Some will be franchises with dependable revenue and earnings where we can illustrate a positive partnership approach and still achieve solid growth. We are always mindful of the geography of potential opportunities so that we create regional infrastructure to support our franchisees and link our nationwide sales footprint for customers. Third, since we have achieved success with our strategy, we plan to extend the model to the UK, Canada and Australia during 2016 to position Water Intelligence for future growth given the reality of a worldwide addressable market for solutions to mitigate water loss.

Given our 2015 achievements, we look forward to building a multinational growth-oriented company that unlocks shareholder value. We are off to a strong start in 2016.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2015

	Year ended 31 December 2015 $	Year ended 31 December 2014 $
Revenue	8,842,349	7,215,097
Cost of sales	(799,441)	(525,055)

Gross profit	8,042,908	6,690,042
Administrative expenses		
- Other Income	29,394	36,550
- Share-based payments	(35,232)	-
- Amortisation of intangibles	(270,492)	(341,870)
- Other administrative costs	(6,676,362)	(5,675,869)
Total administrative expenses	(6,952,692)	(5,981,189)
Operating profit	1,090,216	708,853
Finance income	17,326	18,154
Finance expense	(135,102)	(141,837)
Profit before tax	972,440	585,170
Taxation expense	(391,687)	(209,118)
Profit for the year	**580,753**	**376,052**

Other Comprehensive Income		
Items that will or maybe reclassified to Profit & Loss		
Exchange differences arising on translation of foreign operations	(37,029)	(50,622)
Total comprehensive profit for the year	**543,724**	**325,430**

Profit per share	**Cents**	**Cents**
Basic	5.5	3.6
Diluted	5.5	3.6

Consolidated Statement of Financial Position as at 31 December 2015

	2015	**2014**
	$	**$**
ASSETS		
Non-current assets		
Goodwill	1,469,027	801,211
Other intangible assets	2,680,523	3,003,215
Property, plant and equipment	107,448	57,948
Trade and other receivables	37,576	29,076
	4,294,574	3,891,450
Current assets		
Inventories	275,204	205,477
Trade and other receivables	1,350,804	830,272
Cash and cash equivalents	1,031,454	1,756,014
	2,657,462	2,791,763

TOTAL ASSETS	6,952,036	6,683,213
EQUITY AND LIABILITIES		
Equity attributable to holders of the parent		
Share capital	12,733,307	12,732,564
Share premium	4,829,377	4,800,610
Shares to be issued	-	29,510
Capital redemption reserve	6,517,644	6,517,644
Merger reserve	8,501,150	8,501,150
Share based payment reserve	35,232	-
Other reserves	(148,095)	(111,066)
Reverse acquisition reserve	(27,758,088)	(27,758,088)
Retained loss	(874,022)	(1,454,775)
	3,836,505	3,257,549
Non-current liabilities		
Borrowings	1,459,027	2,048,472
Deferred consideration	277,208	-
Deferred tax liability	64,449	195,319
	1,800,684	2,243,791
Current liabilities		
Trade and other payables	663,616	667,997
Borrowings	591,450	502,029
Deferred consideration	59,781	-
Provision for onerous contracts	-	11,847
	1,314,847	1,181,873
TOTAL EQUITY AND LIABILITIES	6,952,036	6,683,213

Consolidated statement of changes in equity for the year ended 31 December 2015

	Share Capital	Share Premium	Shares to be issued	Capital Redemption Reserve	Reverse Acquisition Reserve	Merger Reserve	Share based payment reserve	Other reserves	Retained Losses	Total Equity
	$	$	$	$	$	$	$	$	$	$
As at 1 January 2014	**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**
Issue of Ordinary Shares	-	-	-	-	-	-	-	-	-	-
Shares to be issued	-	-	29,510	-	-	-	-	-	-	29,510
Release of share based payment reserve	-	-	-	-	-	-	(110,680)	-	110,680	-
Profit for the year	-	-	-	-	-	-	-	-	376,052	376,052
Other comprehensive loss	-	-	-	-	-	-	-	(50,622)	-	(50,622)
As at 31 December 2014	**12,732,564**	**4,800,610**	**29,510**	**6,517,644**	**(27,758,088)**	**8,501,150**	**-**	**(111,066)**	**(1,454,775)**	**3,257,549**
As at 1 January 2015	**12,732,564**	**4,800,610**	**29,510**	**6,517,644**	**(27,758,088)**	**8,501,150**	**-**	**(111,066)**	**(1,454,775)**	**3,257,549**
Issue of Ordinary Shares	743	28,767	(29,510)	-	-	-	-	-		-
Share-based payment expense	-	-	-	-	-	-	35,232	-	-	35,232
Profit for the year	-	-	-	-	-	-	-	-	580,753	580,753
Other comprehensive loss	-	-	-	-	-	-	-	(37,029)	-	(37,029)
As at 31 December 2015	**12,733,307**	**4,829,377**	**-**	**6,517,644**	**(27,758,088)**	**8,501,150**	**35,232**	**(148,095)**	**(874,022)**	**3,836,505**

The following describes the nature and purpose of each reserve within owners' equity:

Share capital	Amount subscribed for share capital at nominal value. The share capital above includes share capital and shares to be issued relating to the New York franchise reacquisition. These are disclosed separately on the face of the Balance Sheet.
Share premium	Amount subscribed for share capital in excess of nominal value.
Shares to be issued	Equity to be issued in respect of an equity settled transaction
Capital redemption	Non-distributable reserve in relation to cancellation of deferred shares.
Retained losses	Cumulative net losses recognised in the Financial Statements.
Reverse acquisition	Non-distributable amount arising on the reverse acquisition.
Merger acquisition	Non-distributable reserve arising on reverse acquisition.
Other reserves	Exchange differences on translating foreign operations.
Share based payment reserve	Amounts recognised for the fair value of share options granted in accordance with IFRS 2.

Consolidated statement of cash flows for the year ended 31 December 2015

	Year ended 31 December 2015	**Year ended 31 December 2014**
	$	**$**
Net cash generated from operating activities	**199,484**	**621,517**
Cash flows from investing activities		
Purchase of plant and equipment	(66,244)	(56,589)
Purchase of intangible assets	-	(58,490)
Reacquisition of franchises	(240,000)	-
Interest received	17,326	18,154
Net cash used in investing activities	**(288,918)**	**(96,925)**
Cash flows from financing activities		
Interest paid	(135,102)	(141,837)
Proceeds from borrowings	-	1,000,000
Principal payments on long term debt and promissory notes	(500,024)	(419,209)
Net cash used in financing activities	**(635,126)**	**438,954**
Net (decrease)/increase in cash and cash equivalents	**(724,560)**	**963,546**
Cash and cash equivalents at the beginning of year	**1,756,014**	**792,468**
Cash and cash equivalents at end of year	**1,031,454**	**1,756,014**

1 General information

The Group is the leading provider of non-invasive, leak detection and remediation services. The Group's strategy is to be a "one-stop" shop of water leak solutions (including products) 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.

The Company is listed on AIM of the London Stock Exchange. These Financial Statements were authorised for issue by the Board of Directors on the 12 June 2016.

2 Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective in 2015 which had a material effect on these Financial Statements.

At the date of approval of these Financial Statements, the directors have considered IFRS Standards and Interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective.

The Group has not early adopted these amended standards and interpretations. The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's Financial Statements in the periods of initial application, however, the directors' review of the potential impact of IFRS 15 and IFRS16, has yet to be concluded.

3 Significant accounting policies

Basis of preparation
These Financial Statements of the Group and Company are prepared on a going concern basis, under the historical cost convention (with the exception of share based payments and goodwill) and in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union, in accordance with the Companies Act 2006. The Parent Company's Financial Statements have also been prepared in accordance with IFRS and the Companies Act 2006.

The preparation of Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Financial Statements are presented in US Dollars ($), rounded to the nearest dollar.

Going concern
The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Directors' Report and the Chairman's Statement.

The Directors have prepared a business plan and cash flow forecast for the period to June 2017. The forecast contains certain assumptions about the level of future sales and the level of margins achievable. These assumptions are the Directors' best estimate of the future development of the business. The Directors acknowledge that the Group in the near-term is funded entirely on cash generation by its profitable US-based franchise business, ALD. The Directors believe that the funding will be available on a case by case basis for different initiatives such that the Group will have adequate cash resources to pursue its growth plan.

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly, continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The Group financial statements consolidate the accounts of Water Intelligence plc and all of its subsidiary undertakings made up to 31 December 2015. The Consolidated Statement of Comprehensive Income includes the results of all subsidiary undertakings for the period from the date on which control passes. Control is achieved where the Company (or one of its subsidiary undertakings) obtains the power to govern the financial and operating policies of an investee entity so as to derive benefits from its activities.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The acquisition of ALDHC in 2011 was accounted for as a reverse acquisition. The assets and liabilities revalued at their fair value on acquisition therefore related to the Company. Both a merger reserve and a reverse acquisition reserve were created to enable the presentation of a consolidated statement of financial position which combines the equity structure of the legal parent with the reserves of the legal subsidiary.

Inter-company transactions and balances and unrealised gains or losses on transactions between Group companies are eliminated in full.

4 Segmental Information

In the opinion of the Directors, the operations of the Group currently comprise four operating segments, being the franchises, corporate-operated stores, other activities including product and equipment sales and head office costs.

The Group mainly operates in the US, with operations in the UK and certain other countries. In 2015, 99.6% (2014: 100%) of its revenue came from American Leak Detection, which includes royalties from franchisees and corporate-operated stores, with the remaining 0.4% of revenue coming from its UK based wholly-owned ALD International Limited subsidiary.

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

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 revenue less US head office costs
- Corporate-operated stores revenues less direct stores costs
- Other activities including product and equipment sales

Items that do not fall into the three segments have been categorised as unallocated head office costs.

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

Revenue	**Year ended 31 December 2015**	**Year ended 31 December 2014**
	$	**$**

Royalties from franchisees	5,221,330	4,916,984
Corporate-operated Stores	2,614,274	1,460,895
Other activities	1,006,745	837,218
Total	**8,842,349**	**7,215,097**

Profit/(Loss) before tax	**Year ended 31 December 2015**	**Year ended 31 December 2014**
	$	**$**
Royalties from franchisees	1,186,132	826,265
Corporate-operated Stores	148,040	(45,991)
Other activities	126,442	275,843
Unallocated head office costs	(488,174)	(470,947)
Total	**972,440**	**585,170**

Assets	**Year ended 31 December 2015**	**Year ended 31 December 2014**
	$	**$**
Royalties from franchisees	7,868,133	6,790,773
Corporate-operated Stores	791,928	422,193
Other activities	(1,708,025)	(529,753)
Total	**6,952,036**	**6,683,213**

Amortisation	**Year ended 31 December 2015**	**Year ended 31 December 2014**
	$	**$**
Royalties from franchisees	270,492	268,690
Other activities	-	73,180
Total	**270,492**	**341,870**

Depreciation	**Year ended 31 December 2015**	**Year ended 31 December 2014**
	$	**$**
Royalties from franchisees	21,221	11,994
Other activities	434	167
Total	**21,655**	**12,161**

Finance Expense	**Year ended 31 December 2015**	**Year ended 31 December 2014**
	$	**$**
Royalties from franchisees	135,102	141,837

Total	**135,102**	**141,837**

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

	Year ended 31 December 2015	Year ended 31 December 2014
	$	$
US	8,533,134	6,932,950
International	309,215	282,147
Total	**8,842,349**	**7,215,097**

Revenue from franchisor activities by geographical area is detailed below.

	Year ended 31 December 2015	Year ended 31 December 2014
	$	$
US	4,993,714	4,660,227
International	227,617	256,757
Total	**5,221,331**	**4,916,984**

Assets by geography

All significant assets are held in the US in both years.

5 Taxation

	Year ended 31 December 2015	Year ended 31 December 2014
Group	$	$
Current tax:		
Current tax on profits in the year	522,557	209,118
Prior year over provision	-	-
Total current tax	**522,557**	**209,118**
Deferred tax current year	(130,870)	-
Deferred tax prior year	-	-
Deferred tax credit	**(130,870)**	**-**
Income tax expense	**391,687**	**209,118**

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Profit before tax on ordinary activities	972,440	585,170
Tax calculated at domestic rate applicable profits in respective countries (2015: 34% versus 2014: 34.5%)	330,630	198,958
Tax effects of:		
Non-deductible expenses	54,235	26,697
State taxes net of federal benefit	82,534	50,244
Deferred tax not recognised	(75,712)	(66,781)
Taxation expense recognised in income statement	391,687	209,118

The Group is subject to income taxes in two jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The effective rate for tax for 2015 is 48% (2014: 36 %).

6 Earnings per share

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

Basic	**Year ended 31 December 2015**	**Year ended 31 December 2014**
Profit for the year attributable to shareholders of the Company ($)	580,753	376,052
Weighted average number of ordinary shares	10,605,321	10,567,650
Diluted weighted average number of ordinary shares	10,648,128	10,567,650
Profit per share (cents)	**5.5**	**3.6**
Diluted profit per share (cents)	**5.5**	**3.6**

With exception to the 2015 share options issued, there is no diluted impact from the share options on the basis that the exercise price is above the current market value.

7 Goodwill

Group	**Goodwill on acquisitions**	**Owned and Operated stores**	**Franchisor activities**	**Totals**
	$	**$**	**$**	**$**
Cost				
At 1 January 2014	1,493,729	239,500	636,711	2,369,940
Additions	-	-	-	-

At 31 December 2014	**1,493,729**	**239,500**	**636,711**	**2,369,940**
Additions	595,616	-	-	595,616
Reclassification	72,200	-	-	72,200
At 31 December 2015	**2,161,545**	**239,500**	**636,711**	**3,037,756**
Impairment				
At 1 January 2014	1,493,729	75,000	**-**	1,568,729
Impairment in year	-	-	**-**	-
At 31 December 2014	**1,493,729**	**75,000**	**-**	**1,568,729**
Impairment in year	-	-	**-**	-
At 31 December 2015	**1,493,729**	**75,000**	**-**	**1,568,729**
Carrying amount				
At 31 December 2014	**-**	164,500	636,711	801,211
At 31 December 2015	**667,816**	**164,500**	**636,711**	**1,469,027**

An impairment review is undertaken annually or whenever changes in circumstances or events indicate that the carrying amount may not be recovered. For the purpose of impairment testing, goodwill is allocated to each of the three cash generating units expected to benefit from the synergies of the combination, the goodwill on acquisition, corporate owned and operated stores and franchisor activities. The cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not recovered in a subsequent period.

Calculation of the corporate owned and operated stores and the franchisor activities is based upon the determinable cash generating unit for each. Where appropriate the recoverable amount requires the use of estimates, with regards to forecast cash flows and discount rates.

The assumptions used for the corporate owned and operated stores are based on the forecast cash flows for 2015 and that cash flows thereafter are assumed to increase by 2% per annum and a discount rate of 10% has been used to value the future cash flows. A terminal value has been estimated after 5 years of discounted cash flows. The terminal value also assumes a growth rate of 2% per annum and has been calculated at a discount rate of 25%. This has resulted in no impairment charge being required in 2015 (2014: $nil).

The assumptions used for the franchisor activities are based on the forecast cash flows for 2015 and that cash flows thereafter are assumed to increase by 2% per annum and a discount rate of 10% has been used to value the future cash flows. A terminal value has been estimated after 5 years of discounted cash flows. This has resulted in no impairment charge being required in 2015 or in prior years.

Had the estimated cost of capital used in determining the discount rate used in these calculations been 5% higher than management's estimates, the Group would still not have incurred any impairment for either the corporate owned and operated stores or the franchisor activities. Had the estimated revenues used in these calculations been 5% lower than management's estimates, the Group would still not have incurred any impairment for either the corporate owned and operated stores or the franchisor activities.

Goodwill additions relate to the acquisitions of T&M Tech, LLC and the acquisition of franchise territory covering Miami, Florida. In addition, the intangible asset relating to the acquisition of the franchise territory covering New

York in 2014) has been reclassified, for consistency with additions in 2015, from other intangible assets, at its net carrying value, to goodwill as at 31 December 2015.

Where appropriate consideration of separately identifiable intangible assets have been considered in the evaluation of the fair value of assets acquired and the determination of the fair value of goodwill arising. For the acquisitions in 2015 and 2014 relating to the reacquisition of franchises, it is considered that the value being attributed to the purchase consideration relates to the synergies with surrounding franchises, obtaining wider geographical coverage directly within the Group, the focus to seize potential opportunity within their wider business strategy for revenue and earnings growth and the ability to expand new service offerings. Where appropriate consideration of separate intangibles such as covenants not to compete are evaluated. There is no separately identified intangible considered to arise from the customer list of the franchise reacquired given the terms of the franchise agreement and on the basis of the that these customers continue to be customers of the Group's products and services before and after the reacquisition.

On May 1 2015 the Group purchased the entire shareholding of T&M Tech, LLC, a franchise entity with territory rights in South East Michigan for a purchase price of $500,000 which is payable over a period of time. The fair value of the consideration has been determined as $436,989. The purchase price less the initial cash payment of $100,000 leaves a deferred consideration payable amount of $400,000 for which the fair value has been evaluated as $336,989.

On 17 February 2015 the Group acquired the franchise territory covering Miami, Florida for a consideration of $140,000. The territory will be run as a corporate location with 2015 revenue and earnings consolidated directly into Water Intelligence. The location will be joined with the growing corporate operations that are adjacent in Fort Lauderdale to form a regional office.

These can be summarised as follows:

	T&M Tech LLC	**Franchise Territory Miami**	**Totals**
	$	**$**	**$**
Fair value of assets and liabilities acquired			
Accounts receivable	11,000	-	
Equipment	5,000	-	
Covenant not to compete	20,000	-	
Liabilities	(54,627)	**-**	
	(18,627)	**-**	
Fair value of purchase price	**436,989**	**140,000**	
Goodwill	**455,616**	**140,000**	**595,616**

8 Trade and other receivables

Non-current	**Group**		**Company**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
	$	**$**	**$**	**$**

Trade notes receivable	37,576	29,076	-	-
	37,576	**29,076**	**-**	**-**

All non-current receivables are due within five years from the end of the reporting period**.**

Current	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	$	$	$	$
Trade receivables	357,557	96,730	-	-
Prepayments	256,143	460,421	74,096	5,201
Due from Group undertakings	-	-	496,988	428,764
Accrued royalties receivable	432,033	113,258	-	-
Trade notes receivable	82,240	34,877	-	-
Other receivables	111,524	10,671		1,203
Due from related party	111,307	114,315	-	-
Current portion	**1,350,804**	**830,272**	**571,084**	**435,168**

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The average credit period taken on sales is 25 days (2014: 29 days).
As at the 31 December 2015, trade receivables of $41,171 (2014: $14,300) were past due but not impaired. These relate to a number of customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

Ageing of past due but not impaired receivables

	Year ended 31 December 2015	Year ended 31 December 2014
	$	$
60-90 days	3,661	9,357
90+ days	37,510	4,943
	41,171	**14,300**
Average age (days)	92	92

Due to the current net liability position of ALD International Limited, an impairment provision of $391,588 (2014: $391,588) was made in FY15 against part of the receivable due from ALD International Limited to Water Intelligence Plc (company). This provision has no impact on the consolidated results for the year.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Year ended 31 December 2015	Year ended 31 December 2014
	$	$
US Dollar	1,240,142	816,841
UK Pound	110,662	13,431
	1,350,804	**830,272**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

9 Trade and other payables

	Group		Company	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
	$	**$**	**$**	**$**
Trade payables	227,033	176,342	9,796	30,114
Accruals and other payables	436,583	491,655	55,885	46,210
Due to Group undertakings	-	-	880,966	1,142,155
	663,616	**667,997**	**946,647**	**1,218,479**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs and are payable within 3 months. The average credit period taken for trade purchases is 16 days (2014: 25 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

10 Related party transactions

Plain Sight Systems ("PSS") was a former owner of ALDHC and ALD until the reverse merger in 2010 that created Water Intelligence. PSS is now an affiliate of Water Intelligence and hence is a related party. PSS provides a technology license to Water Intelligence and ALD on terms favorable to Water Intelligence and ALD. The license is royalty-free for the first $5 million of sales for products developed with PSS technology.

PSS guarantees the bank debt of Water Intelligence as described below. On the other hand, PSS owes an amount to ALD specified below. During the normal course of operations, there are inter-company transactions among PSS, Water Intelligence plc, ALDHC and ALD. The financial results of these related party transactions are reviewed by an independent director of Water Intelligence plc, the parent of ALDHC and ALD so that they are on arms-length terms.

On June 17, 2014, the Group refinanced its term loan agreement with Liberty Bank of Connecticut. The term of the loan was reset for 5 years to 2019. The principal amount outstanding at December 31, 2015 is $2,050,477. As of December 31, 2015 interest on the loan was 5.75% annually, with monthly instalments of principal and interest amounting to $52,959 per month.

Liberty Bank has required that the refinanced term loan and commercial line of credit be guaranteed by PSS and the Executive Chairman. For the PSS guarantee, ALD pays 0.75% per annum based on the outstanding balance of the loan calculated at the end of each month. For the guarantee of the Executive Chairman, the board has agreed to award the Executive Chairman options for ordinary shares.

For 2015, the Board awarded the Executive Chairman an option to acquire 50,000 ordinary shares at an exercise price of $0.92. The expense charge for the Executive Chairman's guarantee is 0.49%, which will be expensed in 2016 as the options were granted subsequent to year end, bringing the total charge for guarantees to 1.24% for 2015. The charge for the guarantees will be eliminated should the guarantees no longer be required by Liberty Bank.

In order to obtain PSS's consent to extend the duration of its current guarantee, the boards of both PSS and Water Intelligence, reviewed by its respective independent directors, have agreed to extend the time period for repayment of amounts currently owed by PSS to ALD to match the term of the new loan. Interest owed on the PSS receivable will match the interest rate charged by the bank. The monthly charge for the PSS guarantee would be offset against amounts owed by PSS. Interest income related to the PSS receivable amounted to $6,239 and $7,060 for the years

December 31, 2015 and 2014, respectively. The guarantee fee expense for the PSS guarantee amounted to $16,922 and $16,500 for the years ended December 31, 2015 and December 31, 2014 respectively.

During the normal course of operations there are inter-company transactions among PSS, Water Intelligence plc, ALD and ALDHC. In previous years, PSS charged administrative fees to the Company to cover activities taken on behalf of company business. The related receivable/ prepaid balance remaining was $111,307 and $114,315 at December 31, 2015 and 2014, respectively.

During the year, the Group advanced $45,000 to Leeb Publishing in relation to the potential acquisition of paid internet subscribers and social media content focused on scarce natural resources, especially water, to be used for Water Intelligence marketing. If the acquisition is not completed, the advance will be returned to the Group. Leeb Publishing is a related party of the Group, as Stephen Leeb is a director in common.

During the year the Company had the following transactions with its subsidiary companies:

ALD International Limited

	$
Balance at 31 December 2014	428,764
Net loans to subsidiary	48,853
VAT transferred under group registration	43,406
Other expenses recharged and exchange differences	(24,035)
Balance at 31 December 2015	**496,988**

ALD Inc.

	$
Balance at 31 December 2014	**(216,115)**
Loans to WI	(400,000)
Deferred tax adjustment	873,271
Transfer of investment in Leeb Publishing	(45,000)
Other expenses recharged and exchange differences	(262,475)
Balance at 31 December 2015	**(50,319)**

ALDHC

	$
Loans to WI	**(1,000,000)**

11 Subsequent events

Following a general meeting held on 29 March 2016 where shareholders voted to approve the matter, a share capital reorganisation was undertaken on 30 March 2016 pursuant to which every 230 ordinary shares of 1p each were consolidated into 1 ordinary share of £2.30 nominal value and then subdivided back into ordinary shares of 1p each. Undertaking this exercise enabled the Company to significantly decrease the number of persons on its shareholder register and reduce the associated costs and administrative burden of maintaining a large shareholder base with no material interest in the Company. The total number of shares in issue following completion of the share capital reorganisation was 10,617,720 ordinary shares of 1p each.

On 20 April 2016, following approval by shareholders at the general meeting held on 29 March 2016 and the High Court of Justice of England and Wales, the Company undertook a capital reduction exercise pursuant to which:

- the share premium account of the Company was cancelled;
- the capital redemption account of the Company was cancelled;
- the issued share capital of the Company was reduced by cancelling all the issued deferred shares; and
- the amount of US$7,500,000 standing to the credit of the merger reserve was capitalised and applied in paying up bonus shares which were then cancelled.

Accordingly, for the purposes of the Company's balance sheet, on 20 April 2016, the share premium account and capital redemption account were reduced to zero, the merger reserve was reduced by US$7,500,000 and the share capital of the Company was reduced by £8,084,507.60 (US$12,679,741).

In total, this exercise generated US$31,497,995 to be credited against the negative distributable reserves of the Company (2014: US$24,671,150) thereby creating positive distributable reserves. Having positive distributable reserves means that the Company will be able to pay dividends and buy back shares in future should it be deemed desirable to do so.

Current trading is referred to in the Chairman's Statement.

12 Annual General Meeting

The AGM of the Company will be held at the office of ONE Advisory Group Limited, 201 Temple Chambers, 3-7 Temple Avenue, London, EC4Y 0DT at 11 a.m. on 7 July 2016.

13 Publication of announcement and the report and accounts

A copy of this announcement will be available at the Company's registered office (201 Temple Chambers, 3-7 Tempe Avenue, London, EC4Y 0DT) 14 days from the date of this announcement and on its website - www.waterintelligence.co.uk. This announcement is not being sent to shareholders. The Annual Report will be posted to shareholders in the near future and will be made available on the website.