Modern Water plc
Interim Financial Report 2015

OUR HIGHLIGHTS

Operational

- Final scope of the £20.5m project for the Gibraltar Wastewater Treatment Plant agreed and ratification of the tender award expected shortly from H.M Government of Gibraltar.
- Re-organisation and reduction in headcount to save £0.7m/year.
- Installation of first Microtox Continuous Toxicity Monitor in the USA.
- Installation of first Multisensor 1200 Oil in Water monitor in USA.
- Growth of the Group's substantial patent portfolio with four new patents granted across four different patent families.

Financial

- Monitoring Division revenues increased by 7% to £1.56m (H1 2014: £1.46m).
- Monitoring Division order book increased by 20% to £0.6m (H1 2014: £0.5m).
- Overheads reduced by 5% to £2.64m (H1 2014: £2.77m).
- Operating losses reduced by 9.3% to £2.22m (H1 2014: £2.45m).
- Cash balance of £4.65m (H1 2014: £8.79m) and debt free.

REPORT TO THE SHAREHOLDERS

Chairman's Statement

I am pleased to have been appointed Chairman of Modern Water plc in May and I'm very much looking forward to helping management build a sustainable business going forward. In my short time with the company, I have been pleased to see the strong commitment from the workforce and the quality of technical expertise evident throughout the workforce is highly impressive.

It is clear that Modern Water has failed to deliver on its promises to its shareholders to-date and we must do better. To that end, we have implemented a restructuring plan in order to reduce operating costs and we are taking a critical look at our strategy, particularly with regard to customer and market focus, customer value proposition and product attractiveness. Some operating cost savings have already been made and more will follow. I anticipate that the strategy review will initiate changes during the second-half year and we will start to deliver benefits towards year-end.

As for the first half-year results, revenue and gross profit marginally increased on prior year, whilst overheads reduced, resulting an operating loss of £2.22m (H1 2014: £2.45m). The Group's financial position remains debt free, with cash of £4.65m as at 30 June 2015 (H1 2014: £8.79m).

After five years as a non-executive director of the Company, Robert Clarke has resigned from the Board. On behalf of the Board I would like to thank Robert for his contribution to the company and wish him well for the future.

Alan Wilson
Chairman
16 September 2015

REPORT TO THE SHAREHOLDERS

Chief Executive's Statement

Gibraltar Wastewater Treatment Plant

The Modern Water/Northumbrian Water Joint Venture (JV) was appointed preferred bidder for the Gibraltar Wastewater Project in September 2014. The final scope has been agreed and we await final ratification of the tender award from H.M Government of Gibraltar. Modern Water is the design and build contractor for the project with an expected contract value of £20.5m.

Re-organisation and Cost Reduction

During the period the company has restructured a number of its activities in line with its revised strategy. This has resulted in an annualised reduction in costs of £0.7m. The majority of the cost savings will be realised in the second-half of the year.

Membrane Processes Division

As outlined in our 2014 full year results announcement, the Division has revised its strategy. It was repositioned at the end of 2014 as a broad-based membrane systems specialist, offering a wide variety of water treatment solutions, encompassing both innovative Forward Osmosis (FO) systems and packaged desalination plants for both seawater and brackish water, with an increasing focus on industrial customers. During the period the Division was re-organised to increase the focus on building relationships with key partners in the industry, developing FO applications and closing out sales opportunities.

The Membrane Division has continued successful operation of the forward osmosis desalination plant at Al Najdah in Oman, providing potable water to the local community, in a highly challenging environment for desalination plants.

Monitoring Division

The Monitoring Division continues to focus on creating long term shareholder value by increasing routes to market and developing the product portfolio. The division increased both its revenue in the period and its closing order book compared with the same period last year.

The focus of our sales team remains on the business' core markets of North America, Europe and China. Sales increased in North America and Europe, whilst China continues to be impacted by the slow down in economic growth. The Division is starting to see growth in the US through its strategy of developing a combination of resellers, catalogues and direct sales, specifically increasing demand for the portable Deltatox product, which is used for acute toxicity and ATP testing by customers in a range of sectors.

The Division's single largest order, a purpose built containerised trace metal monitoring system in the Middle East, remains in stock with the Final Acceptance Testing now scheduled for H2 2015.

The key product development initiative has been the roll out of the Microtox Continuous Toxicity Monitor (CTM) at a number of locations across North America, Europe and Asia. The

REPORT TO THE SHAREHOLDERS

Microtox CTM is the only online toxicity monitor which has truly continuous monitoring and is the result of a significant period of R&D. The product is generating significant interest and the first commercial sales order has been received for delivery in H2 2015. In addition to this we have sold the first Multisensor 1200 Oil in Water monitor for an oil pipeline pollution management project in the USA.

Outlook

The next 12 months is a critical period for Modern Water as we deliver our revised strategy in both the Membrane and Monitoring divisions whilst commencing delivery of the Gibraltar Wastewater Treatment Project.

Simon Humphrey
Chief Executive Officer
16 September 2015

GROUP STATEMENT OF COMPREHENSIVE INCOME (UNAUDITIED)

SIX MONTH PERIOD ENDED 30 JUNE 2015

	Note	**6 months ended 30 June 2015 £'000**	6 months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Revenue	6	**1,562**	1,514	2,772
Cost of sales	6	**(885)**	(866)	(1,596)
Gross profit	6	**677**	648	1,176
Administrative expenses	7	**(2,639)**	(2,765)	(5,840)
Other gains		**—**	—	—
Goodwill and intangibles impairment		**—**	—	(12,590)
Operating loss before interest, tax, depreciation & amortisation		**(1,962)**	(2,117)	(17,254)
Depreciation and amortisation		**(258)**	(331)	(641)
Operating loss		**(2,220)**	(2,448)	(17,895)
Finance income		**28**	33	178
Finance costs		—	(73)	—
Loss on ordinary activities before taxation		**(2,192)**	(2,488)	(17,717)
Taxation		**4**	14	36
Loss for the half year		**(2,188)**	(2,474)	(17,681)
Other comprehensive income				
Items may be subsequently reclassified to profit or loss				
Foreign currency translation differences on foreign operations		**22**	23	(66)
Total comprehensive loss for the half year		**(2,166)**	(2,451)	(17,747)
Loss attributable to:				
Owners of the parent		**(2,188)**	(2,474)	(17,681)
Non-controlling interests		**—**	—	—
		(2,188)	(2,474)	(17,681)
Total comprehensive loss attributable to:				
Owners of the parent		**(2,166)**	(2,451)	(17,747)
Non-controlling interests		**—**	—	—
		(2,166)	(2,451)	(17,747)
Loss per share attributable to the equity holders of the parent				
Basic loss per share	9	**2.75p**	3.11p	22.24p
Diluted loss per share	9	**2.75p**	3.11p	22.24p

The notes on pages 10 to12 form an integral part of this condensed consolidated interim financial information.
Items in the statement above are all derived from continuing operations.

GROUP STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 30 JUNE 2015

	30 June 2015 £'000	30 June 2014 £'000	31 December 2014 £'000
Assets			
Non-current assets			
Property, plant and equipment	**354**	511	444
Intangible assets	**3,760**	16,732	3,892
Investments	**—**	—	—
	4,114	17,243	4,336
Current assets			
Inventories	**1,819**	1,540	1,456
Trade and other receivables	**1,142**	1,442	1,654
Cash and cash equivalents	**4,649**	8,785	6,801
	7,610	11,767	9,911
Total assets	**11,724**	29,010	14,247
Equity and liabilities			
Equity			
Ordinary shares	**199**	199	199
Share premium account	**40,032**	40,032	40,032
Merger reserve	**398**	13,180	398
Accumulated losses	**(29,988)**	(25,484)	(27,958)
	10,641	27,927	12,671
Non-controlling interests	**126**	126	126
Total equity	**10,767**	28,053	12,797
Liabilities			
Non-current liabilities			
Deferred tax liabilities	**193**	220	198
Current liabilities			
Trade and other payables	**764**	737	1,252
Total liabilities	**957**	957	1,450
Total equity and liabilities	**11,724**	29,010	14,247

The notes on pages 10 to12 form an integral part of this condensed consolidated interim financial information.

GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2015

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Six month period ended 30 June 2014							
Balance as at 1 January 2014	**199**	**40,032**	**13,180**	**(23,181)**	**30,230**	**126**	**30,356**
Comprehensive loss							
Loss for the period ended 30 June 2014	—	—	—	(2,474)	(2,474)	—	(2,474)
Foreign currency translation differences	—	—	—	23	23	—	23
Total comprehensive loss	—	—	—	(2,451)	(2,451)	—	(2,451)
Transactions with owners							
Share-based payments	—	—	—	148	148	—	148
Total transactions with owners	—	—	—	148	148	—	148
Balance as at 30 June 2014	**199**	**40,032**	**13,180**	**(25,484)**	**27,927**	**126**	**28,053**
Six month period ended 30 June 2015							
Balance as at 1 January 2015	**199**	**40,032**	**398**	**(27,958)**	**12,671**	**126**	**12,797**
Comprehensive loss							
Loss for the period ended 30 June 2015	—	—	—	(2,188)	(2,188)	—	(2,188)
Foreign currency translation differences	—	—	—	22	22	—	22
Total comprehensive loss	—	—	—	(2,166)	(2,166)	—	(2,166)
Transactions with owners							
Share-based payments	—	—	—	136	136	—	136
Total transactions with owners	—	—	—	136	136	—	136
Balance as at 30 June 2015	**199**	**40,032**	**398**	**(29,988)**	**10,641**	**126**	**10,767**

The notes on pages 10 to12 form an integral part of this condensed consolidated interim financial information.

GROUP STATEMENT OF CASH FLOWS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2015

	Note	**6 months ended 30 June 2015 £'000**	6 months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Cash flows from operating activities				
Cash used in operations	10	**(2,092)**	(2,632)	(4,516)
Net cash flows used in operating activities		**(2,092)**	(2,632)	(4,516)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(22)**	(67)	(96)
Proceeds from sale of property, plant and equipment		**—**	—	—
Purchase of patents and development costs		**(15)**	(32)	(76)
Interest received		**13**	99	50
Net cash flows used in investing activities		**(24)**	—	(122)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**—**	—	—
Net cash flows used in financing activities		**—**	—	—
Net (decrease)/increase in cash and cash equivalents		**(2,116)**	(2,632)	(4,638)
Cash and cash equivalents at start of period		**6,801**	11,432	11,432
Exchange (losses)/gains on bank balances		**(36)**	(15)	7
Cash and cash equivalents at end of period		**4,649**	8,785	6,801

The notes on pages 10 to12 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2015

1 General information

Modern Water plc ('the Company') and its subsidiaries (together, 'the Group') invests in, develops and deploys new water technology. The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the Alternative Investment Market (AIM), a market operated by the London Stock Exchange. The registered office and principal place of business is Bramley House, The Guildway, Old Portsmouth Road, Guildford, Surrey GU3 1LR.

This condensed consolidated interim financial information was approved for issue by the Board of Directors on 16 September 2015. These interim financial results are unaudited and do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2014 were approved by the board of directors on 11 March 2015 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

2 Basis of preparation and going concern

2.1 Basis of preparation

The principal accounting policies have been applied consistently throughout the period in the preparation of these financial statements. This condensed consolidated interim financial information for the six months ended 30 June 2015 has been prepared in accordance with the AIM Rules for Companies of the London Stock Exchange plc and with IAS 34, 'Interim financial reporting' as adopted by the European Union.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2 Going concern

The directors are required by company law to be satisfied that the Group has adequate resources to continue in business for the foreseeable future. A review has been conducted and the directors have concluded that such resources are available, and that the going concern basis is justified in the preparation of these financial statements.

3 Accounting policies

3.1 Accounting policy and disclosure changes

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014.

4 Principal risks and uncertainties

A detailed explanation of the principal risks and uncertainties affecting the Group, and the steps taken to manage them, is set out in the Directors' Report section of the Group's 2014 Annual Report and Accounts, which is available of the Group's website at www.modernwater.com. The principal risks and uncertainties are summarised as follows:

- customer acceptance of the Group's technologies;
- competitor technology;
- socio-political risks;
- scaling up the technology;
- IP protection;
- recruitment and retention of key personnel;
- health and safety; and
- financial risks.

There have been no significant changes in the nature of these risks that will affect the next six months of the financial year.

5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under current circumstances. Actual results may differ from these estimates. The key sources of estimation uncertainty during the current year were consistent with the prior year, as detailed in the Group's 2014 Annual Report and Accounts.

6 Segmental analysis

The chief operating decision-maker is deemed to be the Board, for whom monthly financial information is provided by division to gross profit and direct overheads; below this financial information is reported in a consolidated Group format. For management reporting purposes the Group is organised into two operating segments (i) membranes; and (ii) monitoring, which matches this divisional split.

Administrative expenses which are directly attributable to the two main operating divisions (comprised of business development, sales, operations and technical expenditure) are reported as expenditure in the respective division. However, a significant proportion of the Group's expenditure (legal, marketing, finance, facilities and directors' expenditure) is managed and reported centrally. As the commercial activities of the Group develop, this financial information is expected to evolve.

Statement of Comprehensive Income	**6 months ended 30 June 2015**				6 months ended 30 June 2014			
	Membrane £'000	**Monitoring £'000**	**Central £'000**	**Total £'000**	Membrane £'000	Monitoring £'000	Central £'000	Total £'000
Revenue	**—**	**1,562**	**—**	**1,562**	53	1,461	—	1,514
Cost of sales	**—**	**(885)**	**—**	**(885)**	(22)	(844)	—	(866)
Gross profit	**—**	**677**	**—**	**677**	31	617	—	648
Administrative expenses	**(762)**	**(882)**	**(859)**	**(2,503)**	(769)	(861)	(987)	(2,617)
Share-based payments	**—**	**—**	**(136)**	**(136)**	—	—	(148)	(148)
Operating profit/(loss) before tax depreciation and amortisation	**(762)**	**(205)**	**(995)**	**(1,962)**	(738)	(244)	(1,135)	(2,117)
Depreciation and amortisation	**—**	**—**	**(258)**	**(258)**	—	—	(331)	(331)
Operating profit/(loss)	**(762)**	**(205)**	**(1,253)**	**(2,220)**	(738)	(244)	(1,466)	(2,448)
Finance income	**—**	**—**	**28**	**28**	—	—	33	33
Finance costs	**—**	**—**	**—**	**—**	—	—	(73)	(73)
Profit/(loss) before taxation	**(762)**	**(205)**	**(1,225)**	**(2,192)**	(738)	(244)	(1,506)	(2,488)
Taxation	**—**	**—**	**4**	**4**	—	—	14	14
Profit/(loss) for the period	**(762)**	**(205)**	**(1,221)**	**(2,188)**	(738)	(244)	(1,492)	(2,474)

7 Administrative expenses by nature

	Note	**6 months ended 30 June 2015 £'000**	6 months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Wages and salaries		**1,078**	1,148	2,347
Social security costs		**104**	123	237
Pension costs		**46**	58	117
Other employee benefits		**78**	69	158
Share-based payments	8	**136**	148	178
Operating lease payments		**177**	185	441
Research and development		**112**	158	339
Loss on disposal of property, plant, equipment and intangible assets		**—**	—	109
Other administrative expenses		**908**	876	1,724
Total administrative expenses before depreciation and amortisation		**2,639**	2,765	5,650
Compensation for loss of office recorded as exceptional		**—**	—	190
Total administrative expenditure		**2,639**	2,765	5,840
Depreciation and amortisation charges		**258**	331	641
Goodwill and intangibles impairment		**—**	—	12,590
Total administrative expenses including depreciation and amortisation		**2,897**	3,096	19,071

8. Share-based payments

	6 months ended 30 June 2015 £'000	6 months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Options (including EMI)	**118**	106	136
Conditional share awards	**18**	42	52
Equity-settled share-based payments	**136**	148	188
Cash-settled share-based payments	—	—	(10)
Total share-based payments charged to the income statement	**136**	148	178

9. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. As the Group is loss making, the diluted loss per share is equal to the basic loss per share.

	6 months ended 30 June 2015 £'000	6 months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Loss attributable to equity holders of the Company	**2,188**	2,474	17,681
Weighted average number of ordinary shares in issue (thousands)	**79,505**	79,505	79,505
Basic loss per share	**2.75p**	3.11p	22.24p

10. Net cash flows used in operating activities

	6 months ended 30 June 2015 £'000	6 months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Loss on ordinary activities before taxation	**(2,192)**	(2,488)	(17,717)
Adjustments for:			
Depreciation of property, plant and equipment	**112**	139	256
Amortisation of intangible assets	**146**	192	385
Loss on disposal of property, plant and equipment	**—**	—	109
Goodwill, intangibles and investment impairment	**—**	—	12,590
Net finance (income)/cost	**(28)**	40	(178)
Share-based payments	**136**	148	178
Movements in working capital:			
(Increase)/Decrease in inventories	**(365)**	(515)	(382)
Decrease in trade and other receivables	**544**	55	157
(Decrease) in trade and other payables	**(445)**	(203)	86
Cash used in operations	**(2,092)**	(2,632)	(4,516)

11. Related party transactions

IP Group plc held 20.0% of the ordinary share capital of the Company as at 30 June 2015 and appoints a non-executive director, and it is therefore deemed a related party. A service agreement dated 1 December 2006 was made between the Company and IP Group plc, whereby IP Group plc provides strategic, business development and administrative services to the Company. Fees for the period were £15,000 (2014: £15,000) and as at 30 June 2015 £7,500 (31 December 2014: £7,500) was outstanding under this agreement.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation in the Group accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

SIX MONTH PERIOD ENDED 30 JUNE 2015

The directors confirm that, to the best of their knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS34 as adopted by the European Union. The interim management report includes a fair review of the information required by the FCA's Disclosure and Transparency Rules (4.2.7 R and 4.2.8 R), namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Modern Water plc are listed in the Modern Water plc Annual Report and Accounts 2014. A list of the current directors is maintained on the Company's website www.modernwater.com.

Alan Wilson
Chairman

Simon Humphrey
Chief Executive Officer

16 September 2015