12 March 2014

Modern Water plc ("Modern Water" or "the Company")

FINAL RESULTS

Modern Water (AIM:MWG), the owner of world-leading technologies for the production of fresh water and monitoring of water quality, announces Full-Year Results for the 12 months ended 31 December 2013

Highlights

Operational

- Signed a three way outline contract with Ottomen Estate Resources and Hangzhou Water to work together towards a contract for a Forward Osmosis (FO) desalination plant on XuGong Island in China
- Signed a distribution agreement for containerised seawater reverse osmosis desalination plants in the Middle East, further developing our relationship with Hangzhou Water
- Market activities in both Membrane and Monitoring divisions scaled up, including the opening of a new office in Shanghai and the signing of distribution agreements in both divisions
- Expanded existing relationships in the Middle East, with the completion of the first year of Al Najdah O&M contract in Oman
- Growth in Monitoring division revenue, licensing and development of new products and signing of new distribution agreements both with existing distributors (Beijing Green Science and Technology Company) and new distributors
- Signed a new substantial product development contract with a global agrochemical company, which will see Modern Water develop a new herbicide testing system
- Continued demand for Modern Water's monitoring products to tackle some key problems across the globe, including the Fukushima disaster clean-up in Japan

Financial

- Strong financial position with no debt and cash of £11.4m, up from £5.8m cash in 2012
- Placing of 20 million new Ordinary Shares, raising net proceeds of £9.55m which significantly increased the Group's cash position
- Cash out flow, excluding the fund raise, improved by £1.7m to £3.9m from £5.5m in 2012
- Gross profit up to £1.7m from £1.4m in 2012
- Operating losses reduced to £4.9m from £5.6m in 2012
- Loss before interest, tax, depreciation and amortisation reduced to £4.0m from £4.7m in 2012

Commenting on the results, Neil McDougall, Executive Chairman of Modern Water, said:
"Modern Water has progressed significantly during 2013, with both our Membrane Processes and Monitoring divisions completing key steps in their growth strategy. The year

began with the highly successful share placing in February before ending positively with the agreement of three new contracts in China, a key market for our development, as part of the UK Government trade mission.

“In the Membrane Processes division, we agreed two new contracts in China during the UK Government trade mission to China. The most significant was for an outline contract to provide a FO desalination plant near Shanghai, representing a key milestone in Modern Water’s development in China. Modern Water also successfully completed the first year of its operation and maintenance contract at its largest FO plant, located in Oman.

“Our Monitoring division performed well, with revenues up on last year. 2013 saw a focus on both expanding our product portfolio and building new routes to market. The latter was best highlighted by the signing of an exclusive distribution agreement with Beijing Green Science & Technology, already a key distribution partner. We also signed a substantial new product development contract with United Phosphorus Inc., a global agrochemical company, to develop and supply a new herbicide testing system. The division enters 2014 in a strong position for further growth, with an impressive line-up of new products and a strong order pipeline.

“We look forward to continuing the growth of the company into 2014, targeting new and existing markets and territories. We remain focused on increasing the reach of our marketing activities, providing leading technology to customers and maximising shareholder value.”

---End---

For further information:

Modern Water plc Neil McDougall, Executive Chairman	+44 1483 696 000
Numis Securities Limited Mark Lander (Corporate Broking) Richard Thomas (Nominated Adviser)	+44 2072 601 000
Headland	
Tom Gough	+44 20 7367 5228
Tom James	+44 20 7367 5240

Notes to editors

Modern Water owns, installs and operates world-leading membrane technology and develops and supplies advanced systems for water monitoring. Its shares trade on the Alternative Investment Market of the London Stock Exchange.

Modern Water's patented FO technology’s benefits include lower energy consumption and lessen environmental impact in a variety of industries. With a sales presence in almost 60 countries, the Group's Monitoring Division includes a leading real-time continuous toxicity monitor and trace metal analysers for monitoring the quality of drinking water.

www.modernwater.com

CHAIRMAN'S STATEMENT

Neil McDougall

Last year proved to be a busy year for Modern Water, with both our Membrane Processes and Monitoring divisions completing key steps in their growth strategy. Significant highlights during the year included signing three key contracts in China as part of the UK Government's Chinese trade mission; our Monitoring division signing a new product development contract with a global agrochemical company; and a share placing raising £10 million before expenses.

The first quarter of 2013 saw the placing of 20 million new Ordinary Shares, which significantly increased the Group's cash position and raised net proceeds of £9.55m. We were delighted by the strong support from both existing and new shareholders. Funds from the placing allow us to continue to pursue opportunities identified by our Membrane Processes division, principally in our strategic markets of China and the Middle East, further commercialise our Forward Osmosis (FO) technology and consequently hit key milestones in our strategy for continued growth. The funds are also being used to grow our Monitoring business by licensing and acquiring innovative, proven products to further leverage our international distribution network.

Membrane Processes Division

In December 2013, Modern Water was part of a UK Government trade mission to China, led by the UK Prime Minister, David Cameron. The first day of the mission was held in Beijing when Modern Water agreed three new contracts. The event was attended by Lord Livingston of Parkhead, UK Minister of State for Trade and Investment.

The most significant signing was for an outline contract to provide a 500m^3 per day FO desalination plant at the XuGong Island development in Hangzhou Bay, near Shanghai. It represents a milestone in Modern Water's development as it will be our first plant in China and demonstrates further scaling up of our FO technology. Successful completion of this project will give us a strong position from which to compete for further projects in China.

Another noteworthy contract signed during the UK-China summit was with Hangzhou Water, China's largest desalination equipment and construction company. This contract stipulates that Modern Water acts as its sole distributor for its containerised seawater reverse osmosis desalination plants in the Middle East and its non-exclusive distributor in the rest of the world outside China.

During 2013 Modern Water also successfully completed the first year of its operation and maintenance contract at its largest FO plant to date (200m^3/d) located in Al Najdah, Oman.

Monitoring Division

The Monitoring Division saw an increase in revenue in 2013 to £3.5 million. The trace metal range of monitoring products saw the greatest increase in sales with a 9% increase on 2012.

Expanding our product portfolio and developing routes to market continued to be two important activities for the Monitoring division during 2013. In July we signed a new substantial product development contract with global agrochemical company United Phosphorus Inc., which will see Modern Water develop and supply a new herbicide testing system. Additionally, in October we signed an exclusive distribution agreement with Beijing Green Science and Technology, already one of our key distribution partners, which will underpin our revenues in the next two years, covering mainland China, Hong Kong and Macau.

Overview

Modern Water has progressed significantly during 2013. We began the year strongly by completing a highly successful share placing and ended it on another high note by signing three new contracts in China, one of our key markets. As we move into 2014 the Group remains financially strong with net cash of £11.4 million and is well placed to continue to grow in the future.

On behalf of the Board I would like to thank all the team at Modern Water for their ongoing dedication as we look ahead to further progress in 2014.

STRATEGIC REPORT

Simon Humphrey

The Directors of Modern Water plc (the Company) and its subsidiary undertakings (which together comprise the Group) present their Strategic Report for the year ended 31 December 2013.

Principal Activities

Modern Water plc is the holding company of a trading group, the principal activities of which are to own, develop and supply technologies, products and services related to provision of fresh water and treatment and disposal of waste water, specifically:

- design, construction, testing, installation, commissioning and operation of desalination plants and water cooling systems;
- water quality monitoring, environmental monitoring and soil testing; and
- saline wastewater treatment systems and electro-coagulation wastewater treatment systems.

Key Markets

The past 12 months have seen Modern Water deliver its growth strategy in key markets, particularly China. The selection of our Forward Osmosis (FO) technology for an outline contract to construct a desalination plant on the Chinese island development of XuGong confirmed the Group’s position as the world-leading FO technology provider. Subject to agreement of the final contract, this will be China’s first FO plant and puts Modern Water in a strong position to compete for further projects.
China is also a key market for our Monitoring division and during 2013 we signed an exclusive distribution agreement with Beijing Green covering mainland China, Hong Kong and Macau. The agreement will maximise sales opportunities throughout the current Chinese five year plan, as well as provide a strong platform for Modern Water’s products during the crucial planning stages of the next five year plan.

Key Performance Indicators

At the Group’s current stage of development, the directors consider that strategic and operational progress is best measured by achievement against technical and business development milestones. Key milestones against which progress was made in 2013 were:

- scaling up level and reach of market activities in both Membrane and Monitoring divisions, including the opening of the new Modern Water office in Shanghai and the signing of distribution agreements in both Membrane and Monitoring divisions;
- development of relationship with Hangzhou Water, with the signing of the Xugong Island agreement as well as a distribution agreement in the Middle East;
- building on existing relationships in the Middle East, with the completion of the first year of the Al Najdah O&M contract in Oman; and
- growth of Monitoring division revenue, licensing and development of new products and signing of new distribution agreements both with existing distributors (Beijng Green Science and Technology Company) and new distributors.

During 2014 we will focus on making further progress against these objectives and additional objectives, which were not completed in 2013, including:

- agreement of, and delivery on, final contract for Xugong Island project;
- entry into industrial water market in China;
- progress projects with Kazema in Kuwait; and
- build on opportunities for deployment of waste water technologies.

Further details of strategic and operational progress for the two main operating divisions are detailed in the Membrane Processes and Monitoring sections of this Strategic Report. The

Board reviews strategic, operational and financial information on a monthly basis to measure progress. The key financial highlights of 2013 were:

- gross profit increased to £1.7m (2012: £1.4m);
- operating loss before tax, interest, depreciation and amortisation reduced to £4.0m (2012: £4.7m);
- placing of new shares in February raised net proceeds of £9.55m;
- cash outflow, excluding the fund raise, improved by £1.7m to £3.87m (2012: £5.53m); and
- cash as at 31 December 2013 was £11.4m (2012: £5.8m).

Further information on the financials is detailed in the Financial Review section of this Strategic Report.

Membrane Processes Division

Operational Review

In just two years since the award of the world's first commercial FO desalination contract, Modern Water has successfully installed and commissioned the plant in Oman, and completed the first year of its operations and maintenance contract in September 2013. Operating conditions at Al Najdah, in particular the quality of feed water, have been challenging but the plant has performed beyond expectations. Despite the difficult operating conditions we have been able to achieve our goal of becoming a 100% locally managed operation in Oman with support from our central technical team.

Growth Strategy

Our growth strategy is well underway and the commercialisation of our FO technology is accelerating. In early 2013, we announced our strategy to focus on China as one of our key markets. We believe that our FO technology is an excellent solution to help China overcome its challenge of providing clean water to the 400 cities that currently face water scarcity. We have established a strong presence in China in 2013; with a new Chinese website going live in January; opening a new office in Shanghai in November; and signing an outline contract for a FO desalination plant on XuGong Island in China in December. The XuGong Island contract is still subject to final agreement, but once complete will be China's first FO desalination plant and provides a strong platform for Modern Water in China.

In December, Modern Water also strengthened its partnership with its Chinese desalination partner, Hangzhou Water, and signed an agreement to act as its exclusive distributor in the Middle East and non-exclusive distributor in the rest of the world outside China for its containerised seawater reverse osmosis plants.

Patent Portfolio

A key part of our strategy is to invest in our intellectual property. Our patent portfolio significantly strengthened in 2013 and our Membrane Processes division was granted an additional 14 patents across eight patent families. This includes the new thermal desalination patent which as at 31 December 2013 had been granted in ten jurisdictions and is pending in several more.

Monitoring Division

The Monitoring division continued to make progress in 2013, seeing the first sales of recently launched products come through, developing new products and expanding its distribution network.

Operational Review

The Monitoring division achieved sales of £3.5m in 2013 (2012: £3.4m) with trace metal products seeing the largest increase in sales. Recurring revenues of service contracts and reagent sales accounted for £1m in 2013. Gross profit increased to £1.7m (2012: £1.6m).

We enter 2014 in a strong position for further growth. We have an impressive line-up of new products ready to be launched during 2014 and a strong order pipeline. We have also secured entry into key industry product catalogues, such as the USA BlueBook, which is recognised as the number one source of products and technical support for professional water and wastewater operators in the USA.

New Product Development
The Monitoring division signed an important product development contract last July to develop a new product for the global agrochemical company United Phosphorus Inc (UPI). This substantial product development contract involves Modern Water developing and supplying a new herbicide testing system for use in rivers, streams, irrigation canals and other water ways. The contract is part of a 13-year collaboration between the two companies, which will provide UPI with an exclusive license to use and distribute the new test kits.
2013 saw the first sales of the new portable fluorometer product range, which was introduced into the Monitoring division's product portfolio in 2012. The range provides a cost-effective solution to monitoring effects of organic pollution, identifying potentially harmful cyanobacteria and turbidity and currently consists of the AlgaeChek, the AlgaeChek Ultra and the BODChek.

Distribution Network
In 2012 our sales team from our newly acquired monitoring businesses underwent extensive training on all products across our enhanced monitoring product range. We then extended and improved our distribution network by restructuring the team into three geographical regions. During 2013 the new structure continued to strengthen and grow our distribution network, and the division now supports sales in over 60 countries.

The first sale of our trace metal analysers in Scandinavia last January was of particular interest. Not only was it the first sale of one of our trace metal products in Scandinavia but it was also the first time an online 24/7 metal monitor (OVA) had been used for real time monitoring of metals in flue gas at a waste–to-energy power plant.

In 2012 the Chinese government announced plans to invest US$536bn in environmental protection as part of its current five year plan, making China an important strategic market for our monitoring products. In order to maximise sales opportunities across China we decided to grant Beijing Green Science and Technology an exclusive distribution agreement to cover the sale of our products across mainland China, Hong Kong and Macau. In return we will receive a guaranteed minimum revenue for the next two years.

In April, the division held its first sales conference for distributors from across Europe and the Americas. The conference was held in the UK and was an opportunity for all of our distributors to learn more about the benefits and applications of our existing product portfolio as well as preview future product development plans.

Group Performance and Financial Review

Intellectual Property
The strength and breadth of our patent portfolio increased significantly in 2013 with an additional 16 patents granted in 39 jurisdictions.

The Group now holds 115 granted patents with 55 pending applications. The Membrane Processes division holds 85 granted patents across the eight main patent families of solvent removal, improved solvent removal, secondary oil recovery, osmotic energy, separation process, evaporative cooling, cooling tower improvements and thermal desalination. The Monitoring division currently has 25 granted patents, with the remaining five patents granted for wastewater treatment technologies.

Resources
During 2013, in order to scale up the level and reach of market activities in both our Membrane Processes and Monitoring divisions, we have refocused our resources and moved towards our strategy of employing a predominately local work force. Whilst keeping control of our costs, we have equipped our operators with the skills to run our operations with support from our central technical team. At 31 December, the Group had entirely locally run operations in its key markets of China and Oman and across the Group it employed 52 permanent staff in addition to contract staff as required.

Wastewater Treatment Technologies
In addition to progress in the Group's two main divisions, Membrane Processes and Monitoring, we have also made significant progress in 2013 with Aguacure and our pioneering electro-coagulation (EC) technology. Aguacure currently has one client funded pilot project in Scandinavia and has concluded discussions for a further client funded pilot which will commence in early 2014. Our EC technology has now been successfully tested on a range of applications as diverse as municipal wastewater, mine wastewater, industrial wastewater and swimming pool filter backwash reuse.

During the year we have seen increased interest in the patented saline wastewater treatment technology which has been developed by Poseidon Water Limited (51% owned by Modern Water plc). The company is actively pursuing a major project in joint venture with a UK water company.

Financial Review
Summary
The financial position of the Group is strong, with £11.4m cash in the bank and no debt at 31 December 2013 (2012: £5.8m cash). During the year the Group continued to incur losses, reflecting the Group being in the early stage of commercial roll out, prior to securing significant sales contracts, particularly in the Membrane division. Loss before interest, tax, depreciation and amortisation reduced to £4.0m (2012: £4.7m), operating loss reduced to £4.9m (2012: £5.6m); total comprehensive loss reduced to £4.7m (2012: £5.4m). The reduction on the prior year losses was due to increasing gross profit and other income and a reduction in administrative expenses. The Group generated revenue of £3.5m in 2013 (2012: £3.8m). Cash burn reduced by £1.7m compared with the prior year, excluding the impact of the fund raise.

Cash Flows
The Group cash inflow for the year was £5.7m. Net cash inflow from the fund raise was £9.55m. Cash outflow after net fund raise proceeds was £3.87m (2012: £5.53m), a £1.7m improvement on prior year. This reduction in cash burn was due to increased gross profit and other income (£0.4m), a reduction in operating (£0.3m) and capital expenditure (£0.5m) and an improvement in working capital movement during the year (£0.5m).
Cash inflow from interest on term deposits was £0.1m (2012: £0.2m). Cash outflows comprised £0.1m on property, plant and equipment (2012: £0.6m), £0.1m patents (2012: £0.2m) and £3.7m operating costs (2012: £4.9m).

Share Placing
On 12 February 2013, the Company announced the conditional placing of 20,000,000 new shares to raise £10m (before expenses). This placing was approved at a General Meeting of its shareholders on 28 February 2013 and the shares were admitted to trading in two tranches, on 1 March 2013 and 4 March 2013. The net cash of £9.55m was received on 4 March 2013.

Accounting Policies
The Group financial statements have been prepared in accordance with EU Endorsed IFRS, IFRS Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The key accounting policies to note are those concerned with intangible assets and share based payments.

Capital Structure
The Group is entirely equity funded which is appropriate during the current stage of development. As the Group develops, the capital structure will be reassessed on a project by project basis.

Treasury Management
The Group has adopted a low risk approach to treasury management. Cash balances are invested in fixed interest term deposit accounts, with maturity dates to suit projected liquidity requirements. Credit risk is addressed by the Group's treasury policy. Deposits are selected based on achieving the optimum balance of yield, security and liquidity. Foreign exchange risk is primarily mitigated through natural hedging of receipts and payments. See note 3 to the Accounts for further detail of financial risk management.

Principal Risks and Uncertainties
The principal risks inherent in the operation of the Group are well understood by the Board of Directors and the management team. Control measures have been established to ensure that these, and other, risks are adequately controlled both in terms of frequency and consequence. The internal control environment is described in the Corporate Governance Statement. The principal risks and uncertainties affecting the Group and the steps taken to manage these are:

Customer acceptance of the Group's technologies
The Group's success depends on customer acceptance of its products and processes. There are significant risks in predicting the size and timing of material revenue. The target customers of the Group's products and processes are often in developing countries which carry additional risks. The Group seeks to address these risks by building a track record and proving technology capabilities to future customers and industry players. The Group has increased investment in business development as product development progresses. The Group has formed a number of strategic partnerships to create local presence in target countries, overcome pre-qualification criteria on contract tendering and establish routes to market. The range of applications for the Group's products provides mitigation against the risk of failure in a specific country or application. The Group continues to invest in research and development (R&D) to mitigate the risk of the emergence of competitor technologies.

Socio-political risks
The Group operates, and is looking to secure further contracts and sales, in a number of countries around the world. This exposes the Group to a range of social and political developments and consequentially to potential changes in the operating, regulatory and legal environment. The Group operates and generates revenue in countries where political, economic and social transition is taking place. Some countries have experienced, or may experience in the future, political instability, changes to the regulatory environment, changes in taxation, expropriation or nationalisation of property, civil strife, strikes, acts of war and insurrections. Any of these conditions occurring could disrupt our operations and revenue. The Group seeks to manage these risks through diversifying the regions in which it operates and through insurance.

Scaling up the technology
The Group's membrane division and certain monitoring products are not yet well established commercially. They have been developed over recent years and whilst proving the technology is largely complete there remain significant risks associated with commercialising technology and a portfolio of new products. There are technology and procurement risks in scaling up the products through to large scale commercial deployment. The Group seeks to mitigate these risks through the use of partners with proven manufacturing and fabrication capabilities, rather than developing in-house capabilities, and through the development and operation of pilot plants prior to full commercial deployment.
Additionally there are risks related to developing the optimum contract, royalty and licensing models to derive value from the products. The Group manages these risks through

employment of executives and senior management with significant experience both in the water industry and in the development and growth of early stage companies.

IP protection
The Group's ability to generate value from its products depends in part on the development and protection of its IP. The Group assigns significant resources, both internally through the Company's General Counsel and technical staff, and externally through patent attorneys, to enhance and protect its patented and non-patented IP.

Recruitment and retention of key personnel
The Group's directors and employees are highly qualified and experienced. Recruiting and retaining key staff is critical to the Group's success. Knowledge and experience of the Group's products and customer base is retained by a relatively small number of individuals. The risk of staff loss is mitigated through its HR policies, competitive remuneration (including the Modern Water plc Incentive Plan), performance appraisals and training.

Health and safety
There are inherent health and safety risks with the deployment of the core membrane and monitoring products. The mitigation of any health and safety events involving the Group's products is key to the strategy for growth. The Group mitigates its health and safety risks through its Group Health and Safety Policy, which includes regular reporting to the Board and to the Management Team.

Financial risks
These risks and mitigating controls are described in note 3 to the Accounts.

GROUP STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2013

	Note	**2013 £000**	2012 £000
Revenue	2	**3,528**	3,754
Cost of sales	2	**(1,805)**	(2,341)
Gross profit	2	**1,723**	1,413
Administrative expenses	3	**(5,847)**	(6,107)
Other gains - net		**146**	22
Operating loss before interest, tax, depreciation and amortisation		**(3,978)**	(4,672)
Depreciation and amortisation	3	**(895)**	(880)
Operating loss		**(4,873)**	(5,552)
Finance income		**129**	142
Finance costs		**(22)**	(77)
Loss on ordinary activities before taxation		**(4,766)**	(5,487)
Taxation		**66**	74
Loss for the year		**(4,700)**	(5,413)
Other comprehensive income			
Items may be subsequently reclassified to profit or loss			
Foreign currency translation differences on foreign operations		**16**	4
Total comprehensive loss for the year		**(4,684)**	(5,409)
Loss attributable to:			
Owners of the parent		**(4,700)**	(5,413)
		(4,700)	(5,413)
Total comprehensive loss attributable to:			
Owners of the parent		**(4,684)**	(5,409)
		(4,684)	(5,409)
Loss per share for the year (attributable to owners of the parent):			
Basic loss per share		**6.18p**	9.10p
Diluted loss per share		**6.18p**	9.10p

GROUP STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Note	Group 2013 £000	2012 £000
Assets			
Non-current assets			
Property, plant and equipment		**595**	923
Intangible assets	4	**16,892**	17,289
Investments		**—**	—
		17,487	18,212
Current assets			
Inventories		**1,041**	1,077
Trade and other receivables		**1,634**	1,659
Cash and cash equivalents		**11,432**	5,751
		14,107	8,487
Total assets		**31,594**	26,699
Equity and liabilities			
Equity			
Ordinary shares		**199**	149
Share premium account		**40,032**	30,532
Merger reserve		**13,180**	13,180
Accumulated losses		**(23,181)**	(18,660)
		30,230	25,201
Non-controlling interests		**126**	126
Total equity		**30,356**	25,327
Liabilities			
Non-current liabilities			
Deferred tax liabilities		**234**	300
Current liabilities			
Trade and other payables		**1,004**	1,072
		1,004	1,072
Total liabilities		**1,238**	1,372
Total equity and liabilities		**31,594**	26,699

GROUP STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2013

Group	Ordinary shares £000	Share premium account £000	Merger reserve £000	(Accumulated losses)/ Retained earnings £000	Total £000	Non-controlling interest £000	Total Equity £000
Balance as at 1 January 2012	**149**	**30,532**	**13,180**	**(13,422)**	**30,439**	**126**	**30,565**
Comprehensive loss							
Loss for the year	—	—	—	(5,413)	(5,413)	—	(5,413)
Foreign currency translation differences	—	—	—	4	4	—	4
Total comprehensive loss	—	—	—	(5,409)	(5,409)	—	(5,409)
Transactions with owners							
Share-based payments	—	—	—	171	171	—	171
Total transactions with owners	—	—	—	171	171	—	171
Balance as at 1 January 2013	**149**	**30,532**	**13,180**	**(18,660)**	**25,201**	**126**	**25,327**
Comprehensive loss							
Loss for the year	—	—	—	(4,700)	(4,700)	—	(4,700)
Foreign currency translation differences	—	—	—	16	16	—	16
Total comprehensive loss	—	—	—	(4,684)	(4,684)	—	(4,684)
Transactions with owners							
Issue of shares	50	9,500	—	—	9,550	—	9,550
Share-based payments	—	—	—	163	163	—	163
Total transactions with owners	50	9,500	—	163	9,713	—	9,713
Balance as at 31 December 2013	**199**	**40,032**	**13,180**	**(23,181)**	**30,230**	**126**	**30,356**

GROUP STATEMENT OF CASH FLOWS
Year ended 31 December 2013

	Group	
	2013	2012
	£000	£000
Cash flows from operating activities		
Cash used in operations	**(3,723)**	(4,903)
Net cash flows used in operating activities	**(3,723)**	(4,903)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(144)**	(585)
Proceeds from sale of property, plant and equipment	**10**	14
Purchase of patents and development costs	**(81)**	(152)
Interest received	**93**	176
Net cash flows used in investing activities	**(122)**	(547)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	**9,550**	—
Net cash flows generated from financing activities	**9,550**	—
Net increase/(decrease) in cash and cash equivalents	**5,705**	(5,450)
Cash and cash equivalents at the beginning of the year	**5,751**	11,280
Exchange losses on bank balances	**(24)**	(79)
Cash and cash equivalents at the end of the year	**11,432**	5,751

1. Authorisation and basis of preparation

The board of directors approved these results on 12 March 2014. The financial information set out above is abridged and does not constitute the Group's statutory financial statements for the year to 31 December 2013. Statutory financial statements for the year ended 31 December 2013 have been reported on by the Group's auditors. The report for the year ended 31 December 2013 was unqualified.

The principal accounting policies have been applied consistently throughout the year, unless otherwise stated, in the preparation of these financial statements. The financial statements of Modern Water plc ("the Company") have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, IFRS Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention

2. 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 directly attributable to the two main operating divisions (business development and technical expenditure) are reported as expenditure in the respective division. 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	**2013** Membrane £000	Monitoring £000	Central £000	Total £000	2012 Membrane £000	Monitoring £000	Central £000	Total £000
Revenue	**36**	**3,492**	**—**	**3,528**	378	3,376	—	3,754
Cost of sales	**(8)**	**(1,797)**	**—**	**(1,805)**	(562)	(1,779)	—	(2,341)
Gross profit / (loss)	**28**	**1,695**	**—**	**1,723**	(184)	1,597	—	1,413
Administrative expenses	**(1,629)**	**(1,891)**	**(2,154)**	**(5,674)**	(1,747)	(2,009)	(2,180)	(5,936)
Share-based payments	—	—	**(173)**	**(173)**	—	—	(171)	(171)
Other gains - net	**—**	**59**	**87**	**146**	—	—	22	22
Operating loss before interest, tax, depreciation and amortisation	**(1,601)**	**(137)**	**(2,240)**	**(3,978)**	(1,931)	(412)	(2,329)	(4,672)
Depreciation and amortisation	**—**	**—**	**(895)**	**(895)**	—	—	(880)	(880)
Operating loss	**(1,601)**	**(137)**	**(3,135)**	**(4,873)**	(1,931)	(412)	(3,209)	(5,552)
Finance income	**—**	**—**	**129**	**129**	—	—	142	142
Finance costs	**—**	**—**	**(22)**	**(22)**	—	—	(77)	(77)
Loss before taxation	**(1,601)**	**(137)**	**(3,028)**	**(4,766)**	(1,931)	(412)	(3,144)	(5,487)
Taxation	**—**	**—**	**66**	**66**	—	—	74	74
Loss for the year	**(1,601)**	**(137)**	**(2,962)**	**(4,700)**	(1,931)	(412)	(3,070)	(5,413)

The Monitoring division recognised £106,000 (2012: £135,000) revenue from royalties and £3,386,000 (2012: £3,241,000) from sale of goods and services. The Membrane division recognised £nil (2012: £334,000) from the sale of desalination equipment and £36,000 (2012: £44,000) from sale of water.

Geographical information

The Group operates in four main geographical regions, based on customer location.

Revenue	2013 Membranes £000	2013 Monitoring £000	2013 Total £000	2012 Membranes £000	2012 Monitoring £000	2012 Total £000
Americas	**—**	**1,449**	**1,449**	—	1,390	1,390
Europe	**—**	**708**	**708**	—	632	632
Middle East and Africa	**36**	**71**	**107**	378	60	438
Asia Pacific	**—**	**1,264**	**1,264**	—	1,294	1,294
Total	**36**	**3,492**	**3,528**	378	3,376	3,754

The Group has non-current assets in four countries (2012: four), based on location of the assets.

	2013 Property, plant and equipment £000	2013 Intangible assets including goodwill £000	2013 Total £000	2012 Property, plant and equipment £000	2012 Intangible assets including goodwill £000	2012 Total £000
UK	**212**	**16,892**	**17,104**	259	17,289	17,548
US	**342**	**—**	**342**	413	—	413
Oman	**13**	**—**	**13**	139	—	139
Gibraltar	**28**	**—**	**28**	112	—	112
Total	**595**	**16,892**	**17,487**	923	17,289	18,212

Assets and liabilities are presented to the chief operating decision maker in a consolidated group format. Assets and liabilities are not presented by segment.

Major customers
Within the Monitoring division revenue sales to one customer totalled £821,000 (2012: £664,000), representing 24% (2012: 20%) of the division's revenue. No other customer represented more than 10% of the division's revenue. All revenue in the Membrane division came from a single customer (2012: 100%).

3. Administrative expenses by nature

	2013 £000	2012 £000
Employee benefits expense	**2,658**	2,666
Share-based payments	**173**	171
Operating lease payments	**384**	348
Research and development	**123**	407
Auditors' remuneration	**112**	120
Loss on disposal of property, plant, equipment and intangible assets	**40**	—
Other administrative expenses	**2,357**	2,395
Total administrative expenses before depreciation and amortisation charges	**5,847**	6,107
Depreciation and amortisation charges	**895**	880
Total administrative expenses including depreciation and amortisation charges	**6,742**	6,987

4. Intangible assets

Group	Goodwill £000	Patent and Trademark costs £000	Development costs £000	Research and Development, and patented technology acquired as part of a business combination £000	Customer contracts acquired as part of a business combination £000	**Total £000**
At 1 January 2012						
Cost	13,434	642	131	4,007	180	18,394
Accumulated amortisation	—	(146)	(131)	(508)	(16)	(801)
Net book amount	13,434	496	—	3,499	164	17,593
Year ended 31 December 2012						
Opening net book amount	13,434	496	—	3,499	164	17,593
Additions	—	152	—	—	—	152
Amortisation charge	—	(46)	—	(331)	(79)	(456)

Closing net book amount	13,434	602	—	3,168	85	17,289
At 31 December 2012						
Cost	13,434	794	131	4,007	180	18,546
Accumulated amortisation	—	(192)	(131)	(839)	(95)	(1,257)
Net book amount	13,434	602	—	3,168	85	17,289
Year ended 31 December 2013						
Opening net book amount	13,434	602	—	3,168	85	17,289
Additions	—	81	—	—	—	81
Disposals	—	(28)	—	—	—	(28)
Amortisation charge	—	(40)	—	(332)	(78)	(450)
Closing net book amount	**13,434**	**615**	—	**2,836**	**7**	**16,892**
At 31 December 2013						
Cost	13,434	847	131	4,007	180	18,599
Accumulated amortisation	—	(232)	(131)	(1,171)	(173)	(1,707)
Net book amount	**13,434**	**615**	—	**2,836**	**7**	**16,892**

5. Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Modern Water plc will be held at 10.00am on 23 April 2014 at the offices of Modern Water plc, Bramley House, The Guildway, Old Portsmouth Road, Guildford, GU3 1LR.

6. Availability of Annual Report

Copies of the full statutory accounts will be posted to shareholders at least 21 days before the Company's Annual General Meeting and may be obtained from the date of posting from the registered office of the Company office at Bramley House, The Guildway, Old Portsmouth Road, Guildford, GU3 1LR, as well as from the Company's website at www.modernwater.com.