**11 March 2015**

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

**FINAL RESULTS**

**Modern Water (AIM:MWG), the owner of leading water technologies for the production of fresh water and monitoring of water quality, announces full-year results for the 12 months ended 31 December 2014**

## Key points

### Operational

- JV with Northumbrian Water appointed preferred bidder by the Government of Gibraltar for a wastewater treatment plant for contract worth £22m
- Repositioning of Membrane Processes division as a membrane systems specialist to offer a wide variety of water treatment solutions
- Second year of operations at the Al Najdah forward osmosis desalination plant completed; now 100% locally managed
- Launch of a range of packaged seawater RO desalination plants, branded as 'AquaPak'
- Monitoring division awarded largest single order to date to supply a purpose-built containerised trace metal monitoring system in the Middle East
- Revenues in both Membrane and Monitoring divisions affected by slow-down in China
- Several new monitoring products developed, including the upgraded Microtox® Continuous Toxicity Monitor, now installed at a water treatment plant in Pennsylvania, USA

### Financial

- The Group's financial position remains debt free, with cash reserves of £6.8m (2013: £11.4m)
- Increased group cash outflow, excluding fund raising proceeds, to £4.6m (2013: £3.9m)
- Decrease in gross profit to £1.2m (2013: £1.7m)
- Loss for the year increased to £17.7m (2013: £4.7m), after exceptional items of £12.8m (2013: nil), including the non-cash impairment of intangible assets in the Membrane division
- Increase in operating loss before exceptional items, interest, tax, depreciation and amortisation increased to £4.5m (2013: £4.0m)

**Commenting on the results, Robert Clarke, Interim Non-Executive Chairman of Modern Water, said:**

"The past year has proved to be one of mixed fortunes for Modern Water.

"We were appointed as the preferred bidder for a wastewater treatment contract worth £22m in Gibraltar, the first significant contract for the Group in this field. We also took the decision to reposition the division as a membrane systems specialist. As a result we now offer a wide variety of water treatment solutions with the objective of providing a more predictable flow of opportunities with industrial customers. We believe this could help to mitigate the lumpy and elongated nature of municipal contracts in the Middle East and China.

"The Monitoring Division continued to expand its product portfolio, and was awarded its largest ever single contract to supply a purpose built containerised monitoring system in the Middle East. We also expanded into new markets internationally and launched our Spanish language website to tap into the demand for our products in South America.

"Disappointingly, the slow-down in China - a key market for both our Membrane and Monitoring divisions - has affected revenues in both divisions, and we expect the market in China to remain challenging. However, the Group's financial position remains debt free with cash of £6.8m, and we look forward to 2015 which is set to be a key year in the Company's development."

---End---

**For further information:**

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**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 forward osmosis (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

### Robert Clarke

Having recently stepped up into the role of Interim Non-Executive Chairman I am pleased to be able to report on the performance of Modern Water for the year ended 31 December 2014.

As announced at the end of the year, Neil McDougall, who co-founded Modern Water in 2006, stepped down as Executive Chairman, effective as at 31 December 2014. At the Group's current stage of development Modern Water has moved to a more conventional Non-Executive Chairman model. We are currently searching for a permanent candidate to fill the role, and I will remain in the position of Interim Non-Executive Chairman until that time. I have worked with Modern Water since 2010 as Non-Executive Director and Chairman of the Audit Committee.

Simon Humphrey, the Chief Executive Officer, has set out the main highlights of the year in the Strategic Report and the Group Performance and Financial Review, so it leaves me the opportunity to provide a brief overview.

The past year has proved to be one of mixed fortunes for Modern Water. The Company was appointed as the preferred bidder for a wastewater treatment contract worth £22m in Gibraltar, the Company's first significant contract in this field. Assuming this contract is successfully executed, it will provide a strong reference point of credibility for the business going forward, as well as significant revenues and positive cash flow. Disappointingly, the slow-down in China - a key market for both our Membrane and Monitoring divisions - has caused revenues in both divisions to be lower than forecast and below the prior year.

During the year, Modern Water repositioned its Membrane Processes division as a membrane systems specialist, offering a wide variety of water treatment solutions. Our intention is that this will provide a more predictable flow of opportunities with industrial customers which could help to mitigate the lumpy and elongated nature of municipal contracts in the Middle East and China. In view of the time that it is taking to close commercial contracts in the Membrane division, and the market capitalisation of Modern Water plc at the year end, the Directors have decided to record a significant non-cash impairment to goodwill and intangibles in the Membrane Division.

The Monitoring division should benefit in 2015 from orders which were deferred from 2014, as well as the availability of new products, notably the Continuous Toxicity Monitor whose delayed release adversely impacted 2014. However, the market in China is expected to remain challenging.

Other highlights of the year included the launch of the AquaPak range of packaged desalination plants, the establishment of the International Forward Osmosis Association and the Monitoring division being awarded its largest ever single contract to supply a purpose built containerised monitoring system.

The Group's financial position remains debt free, with cash of £6.8m as at 31 December 2014.

On behalf of the Board I would like to thank all the team at Modern Water for their ongoing commitment to developing the company and to delivering long term value to our shareholders. We look forward to 2015 which is set to be a key year in the company's development.

**STRATEGIC REPORT**

**Simon Humphrey**

**Strategic Report**
The Directors of Modern Water plc (Modern Water or the Company) and its subsidiary undertakings (which together comprise the Group) present their Strategic Report for the year ended 31 December 2014.

**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 the provision of fresh water and treatment and disposal of waste water, specifically:

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

**Key Markets**
It was a difficult 12 months for Modern Water due to a slow-down in China, one of the Company's key markets for both membrane and monitoring products. During 2014 China saw its weakest growth in 24 years and, whilst we remain well placed to gain further contracts in China, contract negotiations are currently taking longer than anticipated.

With the slow-down in Asia Pacific we have expanded our focus to other markets. Since 2009 Modern Water has been active in Gibraltar and currently has state-of-the-art forward osmosis pilot facilities on the peninsula. In October the Government of Gibraltar appointed the Modern Water / Northumbrian Water Joint Venture (JV) as preferred bidder for a wastewater treatment plant where we would be the lead contractor. The JV is currently in negotiations with the Government of Gibraltar over the detailed terms of the project, which we look forward to updating the market on.

The Monitoring division has also been adversely affected by the slow-down in China with revenue lower than forecast during 2014. Demand for our monitoring products has, however, picked up in other areas of the world. Latin America has been a key area for growth for Modern Water in 2014. In order to support our expansion in this region, we launched a Spanish language version of our website in July and have appointed a number of new distributors in many countries across Latin America which we anticipate will lead to an increase in sales in 2015.

**Key Performance Indicators**
At the company's current stage of development, the Directors consider that strategic and operational progress is best measured by achievement in terms of technical and business development milestones. Key milestones against which progress was made in 2014, and on which we will focus on making further progress during 2015, were:

- the focused deployment of wastewater technologies, including our appointment as preferred bidder by the Government of Gibraltar for the construction of a state-of-the-art wastewater treatment plant;
- key relationships strengthened in the Middle East, with our plant at Al Najdah in Oman completing its second year of locally managed operations;
- the Monitoring division continued to expand its product portfolio with over ten new products being launched, numerous new distributor agreements signed and new routes to market through industry catalogues established.

Objectives not completed in 2014 but which we will again focus on during 2015 include:

- agreement of, and delivery on, the final contract for the Xugong Island project;
- entry into the industrial market in China;
- progress on projects with Kazema in Kuwait.

Further details of strategic and operational progress for the two main operating divisions are outlined 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 performance indicators for 2014, covered in more detail in the Financial Review and main financial statement, were:

- revenue decreased to £2.8m (2013: £3.5m). At constant exchange rates revenue for the year was £2.9m.
- gross profit decreased to £1.2m (2013:£1.7m);
- operating loss before exceptional items, tax, interest, depreciation and amortisation increased to £4.5m (2013: £4.0m);
- loss for the year £17.7m (2013: £4.7m), after exceptional items £12.8m (2013: nil);
- cash outflow, excluding fund raise proceeds, increased to £4.6m (2013:£3.9m);
- cash as at 31 December 2014 was £6.8m (2013:£11.4m).

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

**Membrane Process Division**

**Operational Review**

Year on year revenues from the Membrane Process division increased during 2014. The division successfully completed its second year of operations at the Al Najdah forward osmosis (FO) desalination plant, which is now 100% locally managed.

In terms of Research and Development (R&D) relating to the development of our core FO technology a number of key objectives were completed in 2014, resulting in improvements to the FO membrane efficiency. The membranes were tested over the course of six months at both our Cambridge and Gibraltar R&D testing facilities and it has been successfully proven to lead to a substantially higher rate of productivity. We continue to work on the development of our FO technology.

Modern Water continues to be a pioneer in forward osmosis and, in May 2014, our technology was featured on the 50$^{th}$ anniversary edition of one of the UK's most prestigious science programmes, BBC Horizon. The BBC presenter, Professor Iain Stewart, visited Modern Water's first forward osmosis pilot plant in Gibraltar and demonstrated how FO can help alleviate the growing pressure on the planet's fresh water by creating an environmentally sustainable desalination technology.

Another significant development for Modern Water and forward osmosis was the launch of the International Forward Osmosis Association in April 2014. The association was set up by four key companies involved in forward osmosis to promote the technology throughout industry and academia and to provide a voice and a platform for its members. The association held its first world summit in September 2014, an event which attracted significant interest from the membrane industry. As a result of the summit's popularity, the association will hold another larger event in September 2015.

**Growth Strategy**

The membrane business has recently been repositioned as a broad-based membrane systems company. Over the past few years the technology has developed beyond the original forward osmosis sea water desalination concept. Whilst municipal forward osmosis is still a very significant part of the product portfolio, we now have the capability to offer additional products in membrane brine concentration, thermal desalination and evaporative cooling systems as well as packaged sea water reverse osmosis (RO) systems.

During 2014 Modern Water also launched a range of packaged seawater RO desalination plants, branded as ‘AquaPak’, which vary from 100 to 1,000 cubic metres per day. All units are suitable for a variety of applications including potable or industrial, temporary or emergency water supply, construction site water supply, the oil and gas industry as well as golf resorts or hotel complexes. We expect to see sales from these packaged plants start to materialise in 2015.

In view of the time that it is taking to close commercial contracts for forward osmosis, and the market capitalisation of Modern Water plc at the year-end, the Directors decided to record a significant non-cash impairment to goodwill and intangibles in the Membrane Division. The costs associated with filing patents for forward osmosis continue to be held at cost, as patents continue to be successfully granted.

**Patent Portfolio**

Our patent portfolio continued to strengthen in 2014, with patents granted in new territories across a number of different patent families, including the granting of the improved solvent removal process in the USA. The Membrane Process division holds 96 granted patents across 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.

An additional patent was granted for wastewater treatment in August 2014 which now brings the total of Modern Water’s innovative wastewater treatment patents to six.

**Wastewater Treatment**

The Wastewater Treatment section of the Membrane Processes division has made significant progress during the year. In October, the Government of Gibraltar appointed a Joint Venture between Modern Water Services Limited and Northumbrian Services Limited as preferred bidder for a wastewater treatment plant, demonstrating Modern Water’s ability to progress in large competitive tenders.

The contract will include the design, build, finance and operation of a wastewater treatment plant capable of treating urban wastewater for the entire population of Gibraltar as well as storm flows. Modern Water would be the lead contractor and undertake the design and build of the treatment plant with a current contract value of approximately £22m.

**Monitoring division**

**Operational Review**

The Monitoring division achieved sales of £2.7m in 2014 (2013: £3.5m). The downturn in sales was largely due to the slow-down in China, however the remainder of Asia did see a slight increase in sales during the year and the division has a strong order book for 2015. Recurring revenues of service contracts and reagent sales remained constant at £1m in 2014. Gross profit decreased to £1.2m (2013: £1.7m).

The Monitoring division received its largest ever order to date during 2014 for a purpose-built containerised trace metal monitoring system in the Middle East for a large multinational company. This marks a step-change in the Monitoring division’s activities as it will be Modern Water’s first purpose-built unit of this kind, and one which shows our ability to supply fully containerised monitoring systems anywhere in the world. The unit was completed as at 31 December 2014, and held in stock. Once the Final Acceptance Testing is completed in 2015, the unit will be sold to the customer and recognised in revenue.

**New Product Development**
2014 was an exciting year for new product development, with the Monitoring division launching more than ten new products across the toxicity, trace metal and environmental ranges. Key new products launched included:

- immunoassay strip tests which can be carried out much more rapidly than currently available test kits
- ATP environmental kit co-branded with Canadian company, Luminultra Technologies Ltd;
- new UV digester to complement our trace metal products;
- new hydrocarbon monitor;
- expanded our range of algal toxin kits;
- Microtox® Continuous Toxicity Monitor (CTM).

We expect to see the new product lines translate into additional sales revenue during 2015. The most eagerly awaited new product has been the upgraded Microtox® CTM, on trial during 2014 at water treatment plants in the UK, Europe, USA and South Korea. Demand for this ground-breaking monitor has been high, with the first unit being installed just after its launch at a water treatment plant owned by Aqua America, Inc. in Pennsylvania, USA. The Microtox® CTM is unique as it is the only online toxicity monitor that continuously monitors and provides customers with the potential for real-time analysis. The product has produced excellent results and has received excellent feedback from customers. We are now looking at trialling the monitor for other drinking water applications and wastewater.

**Distributor Network**
We have continued to expand our routes to market in both new and existing geographies around the world. This has been done through signing distribution and agency agreements in new countries and territories, the featuring of our products in key industry catalogues, as well as the launch of our website in Spanish to target the Latin American market.

We are constantly reviewing the effectiveness of our distribution network and in early 2014 took the decision to reorganise our sales process throughout the Americas by appointing additional distributors and resellers to effectively cover the whole of this region. In the USA a number of new resellers were appointed to increase the Monitoring division's presence across all 52 States.

**Group Performance and Financial Review**

**Intellectual Property**
The Group now holds 120 granted patents (2013: 115) with 43 pending applications (2013: 55). The Membrane Processes division holds 96 granted patents (2013: 85) across 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 holds 18 granted patents (2013: 25) and the Wastewater division currently holds six granted patents (2013: 5).
During 2014, 13 new patents were granted across nine different patent families. Eight patents expired.

**Resources**
Modern Water strives to create a community, not just a workplace, and makes an effort to encourage collaboration and networking across the Group. We also support the ongoing development of our employees and have an excellent track record in staff retention.

Our strategy of employing local workers where we operate continued during 2014, especially in Oman where our operations continue to be 100% locally managed with support from our central technical team. Both our Membrane Processes and Monitoring divisions have adopted this strategy which is working well.

During 2014 we strengthened our Membrane Processes, Monitoring and Wastewater Treatment teams in order to implement our growth strategy and improve the Group's long term performance.

As at 31 December, the Group employed 52 permanent staff, supplemented by contract staff as required.

**Financial Review**

*Summary*

The Group had £6.8m cash in the bank and no debt at 31 December 2014 (2013: £11.4m cash). During the year the Group continued to incur losses, reflecting that it is being in the early stage of commercial roll out, prior to securing significant sales contracts, particularly in the Membrane division. Loss before exceptional items, interest, tax, depreciation and amortisation increased to £4.5m (2013: £4.0m). The increase on the prior year losses was primarily due to a reduction in revenue and gross profit. The Group generated revenue of £2.8m in 2014 (2013: £3.5m), with the reduction primarily due to lower sales into China. The Group incurred exceptional costs of £12.8m, being the non cash impairment of intangible assets in the Membrane division and costs associated with the resignation of the Executive Chairman and the departure of one other member of staff, consequently total comprehensive loss increased to £17.7m (2013: £4.7m).

*Cash Flows*

The Group cash outflow, excluding fund raising proceeds, for the year was £4.6m (2013: £3.9m). This increase in cash burn was due to a £0.5m reduction in gross profit and working capital movement during the year (£0.2m).

Cash inflow from interest was £0.1m (2013: £0.1m). Cash outflows comprised £0.1m on property, plant and equipment (2013: £0.1m), £0.1m patents (2013: £0.1m) and £4.5m operating activities (2013: £3.7m).

*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 potential 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 potential 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 new 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*
Modern Water 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.

*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 overall 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.

*Capital risks*
It may be desirable for the Company to raise additional capital by way of the further issue of Ordinary Shares to enable the Company to progress through further stages of development. Any additional equity financing may be dilutive to shareholders. There can be no assurance that such funding, if required, will be available to the Company.

*Financial risks*
These risks and mitigating controls are described in note 3 to the Group's statutory financial statements for the year to 31 December 2014.

## GROUP STATEMENT OF COMPREHENSIVE INCOME
## Year ended 31 December 2014

| | Note | 2014 Pre-exceptional £000 | Exceptional £000 | Total £000 | 2013 £000 |
|---|---|---|---|---|---|
| Revenue | 2 | **2,772** | — | **2,772** | 3,528 |
| Cost of sales | 2 | **(1,596)** | — | **(1,596)** | (1,805) |
| **Gross profit** | 2 | **1,176** | — | **1,176** | 1,723 |
| Administrative expenses | 3 | **(5,650)** | **(190)** | **(5,840)** | (5,847) |
| Other gains - net | | — | — | — | 146 |
| Goodwill and intangibles impairment | 4 | — | **(12,590)** | **(12,590)** | — |
| **Operating loss before interest, tax, depreciation and amortisation** | | **(4,474)** | **(12,780)** | **(17,254)** | (3,978) |
| Depreciation and amortisation | | **(641)** | — | **(641)** | (895) |
| **Operating loss** | | **(5,115)** | **(12,780)** | **(17,895)** | (4,873) |
| Finance income | | **178** | — | **178** | 129 |
| Finance costs | | — | — | — | (22) |
| **Loss on ordinary activities before taxation** | | **(4,937)** | **(12,780)** | **(17,717)** | (4,766) |
| Taxation | | **36** | — | **36** | 66 |
| **Loss for the year** | | **(4,901)** | **(12,780)** | **(17,681)** | (4,700) |
| **Other comprehensive income** | | | | | |
| Items may be subsequently reclassified to profit or loss | | | | | |
| Foreign currency translation differences on foreign operations | | **(66)** | — | **(66)** | 16 |
| **Total comprehensive loss for the year** | | **(4,967)** | **(12,780)** | **(17,747)** | (4,684) |
| | | | | | |
| **Loss attributable to:** | | | | | |
| Owners of the parent | | **(4,901)** | **(12,780)** | **(17,681)** | (4,700) |
| | | **(4,901)** | **(12,780)** | **(17,681)** | (4,700) |
| | | | | | |
| **Total comprehensive loss attributable to:** | | | | | |
| Owners of the parent | | **(4,967)** | **(12,780)** | **(17,747)** | (4,684) |
| | | **(4,967)** | **(12,780)** | **(17,747)** | (4,684) |
| | | | | | |
| **Loss per share for the year (attributable to owners of the parent):** | | | | | |
| Basic loss per share | | **6.17p** | **16.07p** | **22.24p** | 6.18p |
| Diluted loss per share | | **6.17p** | **16.07p** | **22.24p** | 6.18p |

## GROUP STATEMENT OF FINANCIAL POSITION
## As at 31 December 2014

| | Note | Group 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **444** | 595 |
| Intangible assets | 4 | **3,892** | 16,892 |
| Investments | | **—** | — |
| | | **4,336** | 17,487 |
| **Current assets** | | | |
| Inventories | | **1,456** | 1,041 |
| Trade and other receivables | | **1,654** | 1,634 |
| Cash and cash equivalents | | **6,801** | 11,432 |
| | | **9,911** | 14,107 |
| **Total assets** | | **14,247** | 31,594 |
| | | | |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Ordinary shares | | **199** | 199 |
| Share premium account | | **40,032** | 40,032 |
| Merger reserve | | **398** | 13,180 |
| Accumulated losses | | **(27,958)** | (23,181) |
| | | **12,671** | 30,230 |
| Non-controlling interests | | **126** | 126 |
| **Total equity** | | **12,797** | 30,356 |
| | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **198** | 234 |
| **Current liabilities** | | | |
| Trade and other payables | | **1,252** | 1,004 |
| | | **1,252** | 1,004 |
| **Total liabilities** | | **1,450** | 1,238 |
| **Total equity and liabilities** | | **14,247** | 31,594 |

## GROUP STATEMENT OF CHANGES IN EQUITY
## Year ended 31 December 2014

| 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 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 1 January 2014** | **199** | **40,032** | **13,180** | **(23,181)** | **30,230** | **126** | **30,356** |
| **Comprehensive loss** | | | | | | | |
| Loss for the year | — | — | — | (17,681) | (17,681) | — | (17,681) |
| Impairment transfer | — | — | (12,782) | 12,782 | — | — | — |
| Foreign currency translation differences | — | — | — | (66) | (66) | — | (66) |
| Total comprehensive loss | — | — | (12,782) | (4,965) | (17,747) | — | (17,747) |
| **Transactions with owners** | | | | | | | |
| Share-based payments | — | — | — | 188 | 188 | — | 188 |
| Total transactions with owners | — | — | — | 188 | 188 | — | 188 |
| **Balance as at 31 December 2014** | **199** | **40,032** | **398** | **(27,958)** | **12,671** | **126** | **12,797** |

The merger reserve resulted from the acquisitions of Surrey Aquatechnology Limited on 12 June 2007 and Cogent Environmental Limited on 2 February 2011 and represents the fair value of equity-based consideration. During the year the goodwill, intangible and investment assets resulting from the acquisition of Surrey Aquatechnology Limited were impaired, as a result there has been a transfer between the corresponding balance in the Merger Reserve and Accumulated Losses. The Merger Reserve balance as at 31 December 2014 relates solely to the acquisition of Cogent Environmental Limited.

## GROUP STATEMENT OF CASH FLOWS
## Year ended 31 December 2014

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **£000** | £000 |
| **Cash flows from operating activities** | | |
| Cash used in operations | **(4,516)** | (3,723) |
| **Net cash flows used in operating activities** | **(4,516)** | (3,723) |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(96)** | (144) |
| Proceeds from sale of property, plant and equipment | **—** | 10 |
| Purchase of patents and development costs | **(76)** | (81) |
| Interest received | **50** | 93 |
| **Net cash flows (used in)/ generated from investing activities** | **(122)** | (122) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of ordinary shares | **—** | 9,550 |
| **Net cash flows generated from financing activities** | **—** | 9,550 |
| Net (decrease) /increase in cash and cash equivalents | **(4,638)** | 5,705 |
| Cash and cash equivalents at the beginning of the year | **11,432** | 5,751 |
| Exchange gains/(losses) on bank balances | **7** | (24) |
| **Cash and cash equivalents at the end of the year** | **6,801** | 11,432 |

## 1. Authorisation and basis of preparation

The board of directors approved these results on 11 March 2015. The financial information set out above is abridged and does not constitute the Group's statutory financial statements for the year to 31 December 2014. Statutory financial statements for the year ended 31 December 2014 have been reported on by the Group's auditors. The report for the year ended 31 December 2014 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

### Reportable segments

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.

| | **2014** | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Membrane £000 | Monitoring £000 | Central £000 | Total £000 | Membrane £000 | Monitoring £000 | Central £000 | Total £000 |
| Revenue | **57** | **2,715** | **—** | **2,772** | 36 | 3,492 | — | 3,528 |
| Cost of sales | **(51)** | **(1,545)** | **—** | **(1,596)** | (8) | (1,797) | — | (1,805) |
| Gross profit / (loss) | **6** | **1,170** | **—** | **1,176** | 28 | 1,695 | — | 1,723 |
| Administrative expenses | **(1,603)** | **(2,031)** | **(2,028)** | **(5,662)** | (1,629) | (1,891) | (2,154) | (5,674) |
| Share-based payments | **—** | **—** | **(178)** | **(178)** | — | — | (173) | (173) |
| Other gains - net | **—** | **—** | **—** | **—** | — | 59 | 87 | 146 |
| Goodwill and intangibles impairment | **(12,590)** | **—** | **—** | **(12,590)** | — | — | — | — |
| Operating loss before interest, tax, depreciation and amortisation | **(14,187)** | **(861)** | **(2,206)** | **(17,254)** | (1,601) | (137) | (2,240) | (3,978) |
| Depreciation and amortisation | **—** | **—** | **(641)** | **(641)** | — | — | (895) | (895) |
| Operating loss | **(14,187)** | **(861)** | **(2,847)** | **(17,895)** | (1,601) | (137) | (3,135) | (4,873) |
| Finance income | **—** | **—** | **178** | **178** | — | — | 129 | 129 |
| Finance costs | **—** | **—** | **—** | **—** | — | — | (22) | (22) |
| Loss before taxation | **(14,187)** | **(861)** | **(2,669)** | **(17,717)** | (1,601) | (137) | (3,028) | (4,766) |
| Taxation | **—** | **—** | **36** | **36** | — | — | 66 | 66 |
| Loss for the year | **(14,187)** | **(861)** | **(2, 633)** | **(17,681)** | (1,601) | (137) | (2,962) | (4,700) |

The Monitoring division recognised £nil (2013: £106,000) revenue from royalties and £2,715,000 (2013: £3,386,000) from sale of goods and services. The Membrane division recognised £nil (2013: £nil) from the sale of desalination equipment and £57,000 (2013: £36,000) from the sale of water and operating and maintenance contracts.

### Geographical information

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

| Revenue | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Membranes £000** | **Monitoring £000** | **Total £000** | Membranes £000 | Monitoring £000 | Total £000 |
| Americas | **—** | **1,187** | **1,187** | — | 1,449 | 1,449 |
| Europe | **—** | **686** | **686** | — | 708 | 708 |
| Middle East and Africa | **57** | **76** | **133** | 36 | 71 | 107 |
| Asia Pacific | **—** | **766** | **766** | — | 1,264 | 1,264 |
| Total | **57** | **2,715** | **2,772** | 36 | 3,492 | 3,528 |

The Group has non-current assets in four countries (2013: four), based on location of the assets.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Property, plant and equipment £000** | **Intangible assets including goodwill £000** | **Total £000** | Property, plant and equipment £000 | Intangible assets including goodwill £000 | Total £000 |
| UK | **135** | **3,892** | **4,027** | 212 | 16,892 | 17,104 |
| US | **294** | **—** | **294** | 342 | — | 342 |
| Oman | **—** | **—** | **—** | 13 | — | 13 |
| Gibraltar | **15** | **—** | **15** | 28 | — | 28 |
| Total | **444** | **3,892** | **4,336** | 595 | 16,892 | 17,487 |

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 to one customer totalled £512,000 (2013: £821,000), representing 19% (2013: 24%) 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 (2013: 100%).

### 3. Administrative expenses by nature

| | Note | **2014 £000** | 2013 £000 |
|---|---|---|---|
| Employee benefits expense | | **2,859** | 2,658 |
| Share-based payments | | **178** | 173 |
| Operating lease payments | | **441** | 384 |
| Research and development | | **339** | 123 |
| Auditors' remuneration | | **110** | 112 |
| Loss on disposal of property, plant, equipment and intangible assets | | **109** | 40 |
| Other administrative expenses | | **1,614** | 2,357 |
| Total administrative expenses before depreciation, amortisation and exceptional charges | | **5,650** | 5,847 |
| Exceptional employee benefits expense | | **190** | — |
| Total administrative expenditure | | **5,840** | 5,847 |
| Depreciation and amortisation charges | | **641** | 895 |
| Goodwill and intangibles impairment | | **12,590** | — |
| Total administrative expenses including depreciation, amortisation and exceptional charges | | **19,071** | 6,742 |

The exceptional employee benefits expense results from compensation for loss of office during the year. The goodwill and intangibles impairment has also been recorded as an exceptional item of expenditure and is described in note 4.

### 4. Intangible assets

| | Goodwill | Patent and Trademark costs | Developme nt costs | Research and Development, and patented technology acquired as part of a business combination | Customer contracts acquired as part of a business combination | **Total** |
|---|---|---|---|---|---|---|

| Group | £000 | £000 | £000 | £000 | £000 | **£000** |
|---|---|---|---|---|---|---|
| **At 1 January 2013** | | | | | | |
| 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 |
| **Year ended 31 December 2014** | | | | | | |
| Opening net book amount | 13,434 | 615 | — | 2,836 | 7 | 16,892 |
| Additions | — | 76 | — | — | — | 76 |
| Disposals | — | (101) | — | — | — | (101) |
| Impairment charge | (11,902) | — | — | (688) | — | (12,590) |
| Amortisation charge | — | (47) | — | (331) | (7) | (385) |
| **Closing net book amount** | **1,532** | **543** | — | **1,817** | — | **3,892** |
| **At 31 December 2014** | | | | | | |
| Cost | 13,434 | 923 | 131 | 4,007 | 180 | 18,675 |
| Accumulated amortisation and impairment charge | (11,902) | (380) | (131) | (2,190) | (180) | (14,783) |
| **Net book amount** | **1,532** | **543** | **—** | **1,817** | **—** | **3,892** |

An impairment charge of £11,902,000 to goodwill and £688,000 to research and development costs has been made to reflect uncertainty over the size and timing of contract revenue and cashflow from the Membrane division (Surrey Aquatechnology Limited). This has been recorded as an exceptional item given its significance. The Directors have decided to record a non-cash impairment to goodwill and intangibles in the Membrane division, in view of the time that it is taking to close commercial contracts and gain customer acceptance of our products and processes in combination with the closing market capitalisation of Modern Water plc at 31 December 2014. These assets were initially created by the acquisition of Surrey Aquatechnology Limited for the non-cash consideration of 10.8m Modern Water plc shares in June 2007.

## 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 30 April 2015 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.