



**10 September 2008**

**Modern Water plc, the owner of leading water technologies, announces Interim Results for six-month period ended 30 June 2008**

**Highlights**

- \* Desalination proving plant in place in Gibraltar; in final stages of commissioning
- \* Office opened in Oman to tap into the Middle Eastern market
- \* Additional interest from the Mediterranean and Asia
- \* Stake in Cymtox increased to 53%
- \* Strong cash position with £28.7 million in hand at 30 June 2008

Commenting on today's results, Neil McDougall, Executive Chairman of Modern Water plc said:

"The Gibraltar proving plant is an important milestone for Modern Water, enabling us to demonstrate the significant advantages of our manipulated osmosis desalination technology in a commercial environment. We are pleased to have the plant in situ in Gibraltar and expect to deliver our first major project on time and on budget and look forward to reporting back on its performance.

"This is an exciting period for Modern Water. Not only is the Gibraltar plant now in place, but we also continue to receive strong interest in our suite of water-related technologies from the Middle East, the largest global market for desalination, and other global markets. In line with our business strategy, we have also been making good progress developing other applications of our core technologies, as we pursue further revenue streams for the company."

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## Report to shareholders

It is with great pleasure that I make my second interim report as Executive Chairman of Modern Water plc. The company has made good progress in the first half of 2008.

In line with our strategy, we are rapidly moving to the commercial roll-out of our ground breaking technologies. Our manipulated osmosis desalination plant, the first of its kind in the world to be developed, was completed at the end of July and is now in the final stages of commissioning in Gibraltar. We anticipate that the plant will prove how our technology delivers a higher output whilst using less energy and keeping capital and operational costs down. In due course, this new technology will provide a cheaper and more environmentally friendly alternative to a growing, multi-billion dollar desalination marketplace.

The company increased its stake in Cymtox to 53% in April 2008. This is consistent with our ambition to expand the Modern Water investment portfolio and will enable us to further influence the unique water quality protection and toxicity monitoring technology being developed by Cymtox.

Our team continues to grow, and I am delighted to welcome the new staff to Modern Water. We are carefully targeting our international expansion and growth, with an office located in the UK, as well as a newly opened office in Oman to tap into the large and fast-growing Middle Eastern market.

Modern Water is focusing on specific key markets as we expand our international operations. The Middle East, Mediterranean region and Asia have great potential and we are pleased to have received interest in our technologies from these territories.

Our growing portfolio of leading edge water-related technologies offers a number of significant potential near-term revenue streams. These include a wastewater treatment product which reduces domestic fresh water requirement by over 30%; pre-treatment technology that increases thermal desalination output by up to 25% and extends plant lifespan; and a technology that uses the manipulated osmosis process in cooling towers to reduce environmental damage and costs.

In difficult economic times, we continue to marshal our financial resources carefully. As a result, we remain in a robust financial position with a strong balance sheet. At 30 June 2008, we had £28.7m cash which is equivalent to 49 pence/share.

With our portfolio of pioneering technologies, a robust balance sheet and a strong team, the board looks forward to both the immediate and long-term future with confidence.

**Neil McDougall**  
**Executive Chairman**  
**9 September 2008**

## Balance sheet

	Note	30 June 2008 £'000	30 June 2007 £'000	31 December 2007 £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	6	506	15	409
Intangible assets	6	14,176	13,647	13,772
Investments	6	90	75	257
<b>Total non-current assets</b>		<b>14,772</b>	13,737	14,438
<b>Current assets</b>				
Trade and other receivables		357	101	688
Cash and cash equivalents		28,719	30,484	29,059
<b>Total current assets</b>		<b>29,076</b>	30,585	29,747
<b>Total assets</b>		<b>43,848</b>	44,322	44,185
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital		147	147	147
Share premium account		30,532	30,548	30,532
Merger reserve		12,782	12,782	12,782
Retained earnings		(1,124)	(298)	(380)
		<b>42,337</b>	43,179	43,081
Minority interest		174	229	173
<b>Total equity</b>		<b>42,511</b>	43,408	43,254
<b>Non-current liabilities</b>				
Deferred income tax liabilities	5	433	440	427
<b>Total non-current liabilities</b>		<b>433</b>	440	427
<b>Current liabilities</b>				
Trade and other payables		879	453	472
Borrowings		25	21	32
<b>Total current liabilities</b>		<b>904</b>	474	504
<b>Total liabilities</b>		<b>1,337</b>	914	931
<b>Total equity and liabilities</b>		<b>43,848</b>	44,322	44,185

The notes on pages 7 to 11 form an integral part of this condensed consolidated interim financial information.

## Income statement

	Note	6 months ended 30 June 2008	9 months ended 30 June 2007	15 months ended 31 December 2007
		£'000	£'000	£'000
Operating expenses	4	(1,962)	(1,112)	(2,719)
<b>Operating loss</b>		<b>(1,962)</b>	<b>(1,112)</b>	<b>(2,719)</b>
Finance income		849	115	1,020
Share of (post tax) losses of associates		(35)	(68)	(50)
<b>Loss before income tax</b>		<b>(1,148)</b>	<b>(1,065)</b>	<b>(1,749)</b>
Income tax credit	5	13	3	16
<b>Loss for the period</b>		<b>(1,135)</b>	<b>(1,062)</b>	<b>(1,733)</b>
<b>Attributable to:</b>				
- equity shareholders of the company		(1,046)	(1,015)	(1,632)
- minority interest		(89)	(47)	(101)
		<b>(1,135)</b>	<b>(1,062)</b>	<b>(1,733)</b>

All results derive from continuing operations.

	6 months ended 30 June 2008	9 months ended 30 June 2008	15 months ended 31 December 2007
<b>Loss per share attributable to the equity holders of the company</b>			
- basic	1.8p	5.4p	4.6p
- diluted	1.7p	5.3p	4.5p

The notes on pages 7 to 11 form an integral part of this condensed consolidated interim financial information.

## Statement of changes in equity

	Called up share capital	Share premium account	Merger reserve	Retained earnings	Minority interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 11 October 2006</b>	-	-	-	-	-	-
Loss for the period	-	-	-	(1,015)	(47)	(1,062)
<b>Total recognised income for the period</b>	-	-	-	(1,015)	(47)	(1,062)
Proceeds of share issues	120	30,548	-	-	-	30,668
Share for share exchange	27	-	12,782	-	-	12,809
Share based payment schemes	-	-	-	717	-	717
Minority interest at acquisition	-	-	-	-	276	276
<b>Balance at 30 June 2007</b>	147	30,548	12,782	(298)	229	43,408
<b>Balance at 1 January 2008</b>	147	30,532	12,782	(380)	173	43,254
Loss for the period	-	-	-	(1,046)	(89)	(1,135)
Minority interest at acquisition	-	-	-	-	90	90
Share based payment schemes (note 7)	-	-	-	302	-	302
<b>Balance at 30 June 2008</b>	147	30,532	12,782	(1,124)	174	42,511

The notes on pages 7 to 11 form an integral part of this condensed consolidated interim financial information.

## Cash flow statement

	Note	6 months ended 30 June 2008 £'000	9 months ended 30 June 2007 £'000	15 months ended 31 December 2007 £'000
<b>Cash flows from operating activities</b>				
Cash used in operations	4	(1,215)	(265)	(1,270)
<b>Net cash flows used in operating activities</b>		<b>(1,215)</b>	<b>(265)</b>	<b>(1,270)</b>
Cash flows investing activities:				
Purchases of property, plant and equipment	6	(138)	(10)	(433)
Purchase of patents and development costs	6	(111)	-	(163)
Acquisition of subsidiaries, net of cash acquired	3	66	(110)	(110)
Acquisition of associates		-	(75)	(167)
Acquisition of other investments		-	-	(90)
<b>Net cash flows from investing activities</b>		<b>(183)</b>	<b>(195)</b>	<b>(963)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of ordinary shares		-	32,253	32,253
Transaction costs of issuing shares		-	(1,305)	(1,601)
Proceeds of borrowings		-	-	15
Repayments of borrowings		(5)	(4)	(8)
Interest received		1,063	-	633
<b>Net cash flows from financing activities</b>		<b>1,058</b>	<b>30,944</b>	<b>31,292</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(340)</b>	<b>30,484</b>	<b>29,059</b>
Cash and cash equivalents less bank overdraft at start of period		29,059	-	-
<b>Cash and cash equivalents and bank overdrafts at end of period</b>		<b>28,719</b>	<b>30,484</b>	<b>29,059</b>

The notes on pages 7 to 11 form an integral part of this condensed consolidated interim financial information.

## Notes to the condensed consolidated interim financial information

### 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 limited liability company incorporated and domiciled in the UK. The address of its registered office is Bramley House, The Guildway, Old Portsmouth Road, Guildford GU3 1LR.

The company is quoted on the AIM market of London Stock Exchange.

This condensed consolidated interim financial information was approved for issue on 9 September 2008.

These interim financial results do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the 15 month period ended 31 December 2007 were approved by the board of directors on 29 February 2008 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 237 of the Companies Act 1985 (section 498 of the Companies Act 2006).

This condensed consolidated interim financial information has been reviewed, not audited.

### 2 Basis of preparation and accounting policies

The principal accounting policies have been applied consistently throughout the period in the preparation of these financial statements.

#### **(a) Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 June 2008 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.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2007.

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

IFRS 7 'Financial instruments' is effective for the year ended 31 December 2008 and will result in changes of disclosures regarding financial instruments and associated notes in the annual financial statements.

#### **(b) Standards not yet effective**

On 22 May 2008, the IASB issued an [amendment to IFRS 1](#) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' effective for annual periods beginning on or after 1 January 2009. There is no expected impact on the group.

On 8 May 2008, IFRIC approved an Interpretation based on D22, 'Hedges of a net investment in a foreign operation' requiring that in a net investment hedge, the currency risk being hedged must be between the functional currency of the foreign operation and that of any of its parent entities (ultimate or intermediate parent). There is no expected impact on the group.

### 3 Business combinations

At 1 January 2008 the group owned 37% of the share capital of Cymtox Limited ('Cymtox'), which had been accounted for as an associate company. On 14 April 2008 Cymtox issued ordinary shares which the group acquired for a cash consideration of £150,000, taking the group holding to a controlling interest of 53%.

The acquired business contributed revenues of £nil and net costs of £56,000 to the group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 January 2008, Cymtox would have contributed revenue and losses for the period ended 30 June 2008 of £nil and £150,000 respectively.

Details of net assets acquired and goodwill are as follows:

	<b>As at 31 December 2007 £'000</b>	<b>6 months ended 30 June 2008 £'000</b>	<b>Total £'000</b>
Cash consideration	167	150	317
Fair value of net identifiable assets acquired	(19)	(14)	(33)
<b>Goodwill</b>	<b>148</b>	<b>136</b>	<b>284</b>

The goodwill is attributable to the potential of Cymtox in its markets and the synergies expected to arise after acquisition by the group.

The assets and liabilities arising from the acquisition are as follows:

	<b>As at 31 December 2007</b>		<b>6 months ended 30 June 2008</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Acquiree's Carrying amount	Fair value	Acquiree's carrying amount	Fair value
Cash and cash equivalents	63	63	216	216
Intangibles	-	70	-	68
Development costs	-	-	17	17
Payables	(61)	(61)	(195)	(195)
Deferred tax liability	-	(20)	-	(19)
<b>Net identifiable assets</b>	<b>2</b>	<b>52</b>	<b>39</b>	<b>87</b>
<b>Percentage acquired</b>		<b>37%</b>		<b>16%</b>
<b>Net identifiable assets acquired</b>		<b>19</b>		<b>14</b>

Outflow of cash to acquire business, net of cash acquired:

- cash and cash equivalents in subsidiary acquired	216
- cash consideration	(150)
<b>Cash inflow on acquisition</b>	<b>66</b>



## 4 Operating expenses

The following items have been charged to operating expenses during the interim period:

	<b>6 months ended 30 June 2008</b>	9 months ended 30 June 2007	15 months ended 31 December 2007
	<b>£'000</b>	£'000	£'000
Fair value of employee share based remuneration (note 7)	<b>302</b>	477	820
Other share based payments for services from IP Group plc	-	240	432
Wages and salaries	<b>888</b>	130	469
Social security costs	<b>58</b>	15	56
Other employee benefits	<b>39</b>	-	7
Depreciation of tangible fixed assets	<b>41</b>	2	26
Amortisation of intangible assets	<b>76</b>	14	70
Minimum lease payments recognised as an operating lease expense	<b>74</b>	-	63

IP Group plc is a significant shareholder of the company.

### Net cash flows from operating activities

	<b>6 months ended 30 June 2008</b>	9 months ended 30 June 2007	15 months ended 31 December 2007
	£000	£000	£000
Operating loss	(1,962)	(1,112)	(2,719)
Adjustments for:			
Depreciation of property, plant and equipment	41	15	26
Amortisation of intangible assets	76	-	73
Equity-settled share-based payments	302	717	1,252
Movements in working capital:			
Decrease/(increase) in trade and other receivables	70	(42)	(177)
Increase in trade and other payables	258	157	275
Cash used in operations	(1,215)	(265)	(1,270)

## 5 Income taxes

During the period there were no taxable profits. At the balance sheet date the group had a deferred tax asset in respect of unutilised trading losses. This asset has not been recognised as its utilisation is not yet sufficiently certain.

The deferred tax liability of £433,000 at 30 June 2008 (2007 : £440,000) arises from taxable temporary differences on intangibles recognised on business combinations and is expected to unwind over the useful economic life of these assets. £13,000 has been credited to the Income Statement to 30 June 2008 (2007 : £3,000).

## 6 Capital expenditure

	Property, plant and equipment £'000	Intangible assets £'000	Investments £'000	Total £'000
Opening net book amount at 1 January 2008	409	13,772	257	14,438
Acquisition of subsidiary (note 3)	-	369	(167)	202
Additions	138	111	-	249
Depreciation / amortisation	(41)	(76)	-	(117)
<b>Closing net book amount at 30 June 2008</b>	<b>506</b>	<b>14,176</b>	<b>90</b>	<b>14,772</b>

## 7 Share based payments

	<b>6 months ended 30 June 2008 £'000</b>	9 months ended 30 June 2008 £'000	15 months ended 31 December 2007 £'000
Option scheme	<b>170</b>	473	180
Management share incentive scheme	<b>63</b>	4	640
Employee bonus scheme	<b>69</b>	-	-
<b>Fair value of employee share based remuneration</b>	<b>302</b>	477	820

## Option scheme

The directors' and employees' holdings of options over ordinary shares issued under the Modern Water Incentive Plan were as follows

Date of grant	Earliest Exercise date	Expiry date	Exercise price	Number of options				30 June 2008
				1 January 2008	Granted in period	Exercised in period	Lapsed in period	
Neil McDougall*								
12.06.07	12.06.08	12.06.17	119.0p	186,959	-	-	186,959	-
12.06.07	12.06.09	12.06.17	119.0p	186,959	-	-	-	186,959
12.06.07	12.06.10	12.06.17	119.0p	186,959	-	-	-	186,959
Simon Humphrey*								
12.06.07	12.06.08	12.06.17	119.0p	373,917	-	-	373,917	-
12.06.07	12.06.09	12.06.17	119.0p	373,918	-	-	-	373,918
12.06.07	12.06.10	12.06.17	119.0p	373,918	-	-	-	373,918
Employees**								
13.12.07	13.12.10	13.12.19	97.0p	600,000	-	-	-	600,000
26.02.08	26.02.11	26.02.20	87.5p	-	200,000	-	-	200,000
02.06.08	02.06.11	02.06.20	112.5p	-	200,000	-	-	200,000
				2,282,630	400,000	-	560,876	2,121,754

\* The Modern Water Incentive Plan provides options to directors subject to performance criteria. One third of the options vest on the date 12 months from AIM admission, one third vest on the date 24 months from AIM admission and one third vest on the date 36 months from AIM admission. Each tranche will vest subject to total shareholder return being at least equal to 10 per cent for the 12 months preceding the relevant tranche vesting date.

\*\* Options will vest subject to total shareholder return being at least equal to 30 per cent for the 3 years between grant and vesting.

## Management Share Incentive Scheme ("MSIS")

The directors' holdings of ordinary shares issued under the MSIS were as follows

	Date of subscription	No of Ordinary Shares	Subscription price
Neil McDougall	1.12.06 & 12.03.07	3,363,400	0.1p
Simon Humphrey	1.12.06 & 12.03.07	1,479,000	0.1p
Gerald Jones	1.12.06	200,000	0.1p

One third of the MSIS shares are not subject to restrictions. One third of the MSIS shares are subject to restrictions which were lifted on 1 December 2007. One third of the MSIS shares are subject to restrictions which are lifted on 1 December 2008.

# Independent review report to Modern Water plc

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008, which comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The financial information included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the AIM Rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

PricewaterhouseCoopers LLP  
Chartered Accountants, Gatwick  
9 September 2008

## Notes:

- (a) The maintenance and integrity of the Modern Water plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.