



MODERNWATER

11 March 2009

**Modern Water plc, the owner of leading water technologies, announces
Final Results for the year ended 31 December 2008**

Highlights

- * Significant milestones achieved towards commercialisation of technologies
- * Oman proving plant contract signed; start-up expected in mid-2009
- * Gibraltar proving plant producing fresh water
- * Net cash balance of £26.8 million at 31 December 2008
- * Additional products and potential revenue streams identified from platform desalination technology.

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

"Modern Water has enjoyed another successful year, with significant milestones achieved in the commercialisation of our desalination technologies. Our Gibraltar plant is producing fresh water and a second plant will be installed in Oman. Both operations will demonstrate the cost and energy-saving benefits of our desalination technology in two of our main target markets, the Mediterranean and the Middle East.

"Modern Water has a strong balance sheet, with a robust cash position and we continue to maintain our prudent approach to growth in order to protect and increase shareholder value.

"Looking forward, our focus remains on creating value through the deployment of our technologies, realising the potential of our existing portfolio and developing additional revenue generating applications. Demand for cost savings in our key markets and an appetite for a reduced environmental footprint remain the key drivers for Modern Water as the business gains momentum."

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Chairman's statement

2008 has been a year of progress for Modern Water plc. Despite the extraordinary turmoil in global financial markets, we continue to take significant steps towards the commercialisation of our technologies and our balance sheet remains strong with net cash of £26.8m.

The majority of our technologies and businesses focus on reducing costs and environmental impact, both primary concerns for our target markets. Therefore interest in our product pipeline remains strong. We expect that demand for improved efficiency will continue to grow and become increasingly critical in the coming years. We are currently focusing on realising the potential of our existing portfolio and developing additional revenue generating applications for our technologies.

The Modern Water business achieved several important milestones in 2008. Our proving plant in Gibraltar, the first of its kind in the world to apply our manipulated osmosis desalination technology, produced its first fresh water in September 2008. The plant operates alongside an existing traditional desalination plant, allowing our technical team to closely monitor the cost and energy savings that our technology offers.

Also in September, we signed a contract with the Oman Ministry of Water and Power to install a proving plant in the coastal town of Al Khaluf in Oman. Utilising our patented manipulated osmosis technology, the Oman plant will enable Modern Water to demonstrate its enhanced cost-saving technology in challenging conditions. Construction of this second proving plant has begun, and we expect to have the Oman plant shipped to the Middle East and operational in mid-2009.

In December 2008, we acquired a 45% share in AguaCure Limited ("AguaCure"), a UK company specialising in proven electrochemical technologies in the treatment of water. AguaCure fits well with our existing portfolio and further cements our position as a leading edge company dedicated to the environmentally sustainable provision of fresh water and treatment of wastewater.

Over the past 12 months, the team at Modern Water has increased in size to ensure that we are well positioned to take advantage of the numerous opportunities available to the company. Along with expansion at our Guildford headquarters, we opened an office in Oman over the summer. I would like to thank the team for their hard work, dedication and commitment over the past 12 months and look forward to continued growth during the coming year.

I have been delighted at the high level of interest our technologies have attracted and the achievements the company has made to date in the roll-out and commercialisation of our desalination technology. With a robust product pipeline offering both near and longer term revenue streams, the board looks forward to the coming year with a firm belief that Modern Water is on track to deliver on our vision and goals, continuing to build on our current success.

Neil McDougall
Executive Chairman

11 March 2009

Business review

Introduction

In 2008, the group experienced successful progress in all areas of the business. The group's first plant was installed and is producing fresh water, with confirmation of a further installation in the Middle East agreed. The team is now established and continues to expand and develop. During the past year the group has advanced its operations and taken technologies from development to commercialisation in anticipation of continued growth over the coming year.

Market

The current financial marketplace has proven to be challenging for many AIM listed companies. However, Modern Water remains well capitalised despite this recent turmoil, with £26.8m net cash in the bank as of 31 December 2008. The world's fresh water resources are finite and the lack of available fresh water is increasing. Therefore demand for lower costs and more energy efficient water-related products is growing, which puts the group in a perfect position to exploit investment and revenue generating opportunities.

Gibraltar

The agreement to install the group's first plant in Gibraltar was announced in February 2008. Following building, shipping and installation over the summer, the plant produced its first fresh water in September 2008. The Gibraltar plant is the first in the world to use Modern Water's manipulated osmosis desalination technology. It operates alongside an existing traditional desalination plant allowing for a direct comparison of the benefits of the technology, which include savings in operational costs and improved energy efficiency.

Oman

In September 2008, the group announced a contract with the Oman Ministry of Water and Power to install a proving plant in the coastal town of Al Khaluf in Oman. Utilising the group's patented manipulated osmosis technology, the Oman plant will enable Modern Water to demonstrate its enhanced cost-saving technology in challenging conditions. Construction of the plant is underway and it is expected to be operational by mid-2009. The Middle East represents a key market for Modern Water, with expectations that the region will account for a significant proportion of the anticipated \$56.4 billion capital expenditure on desalination worldwide by 2015.

AguaCure Limited

In December, Modern Water acquired a 45% share in AguaCure, a UK company specialising in proven electrochemical technologies to treat water. AguaCure's tried and tested system offers major environmental and financial benefits over competitor technologies through removing dissolved and suspended contaminants from water whilst eliminating bacteria and viruses. Its versatility allows the process to be used in a variety of applications including membrane pre-treatment, mine wastewater treatment, metal finishing, and treating phosphate-contaminated water. A large scale system is currently operating successfully in the car manufacturing industry.

Technologies

Modern Water's suite of complementary manipulated osmotic platform technologies offer mid and long-term revenue streams for the group.

Cymtox Limited

The group owns pioneering technology which monitors acute water toxicity on a continuous, real-time basis. Acting like a modern day canary, its monitoring device constantly checks the presence of water-borne toxins and warns of suspicious changes.

Wastewater

The group's proprietary technology which treats seawater for toilet flushing, reduces the domestic requirement for fresh water by up to 30%. The wastewater treatment systems are based on seawater substitution. Combining biological treatment and wastewater expertise, the principal benefit is the reduced requirement for fresh water. This technology complements the group's desalination technology.

Cooling towers

The group owns a further innovation deploying its patented manipulated osmosis process for cooling towers. The technology uses water from non-potable local sources to create a closed loop system which virtually eliminates blowdown, reduces chemical dosing and water consumption, improves cost efficiency and has a positive impact on the environment through reduced energy consumption.

Secondary oil recovery

Modern Water's patented enhanced oil recovery process has the potential to increase extraction of additional oil from existing fields by between 3-13% and is based on a similar principle of manipulated osmosis for desalination applications.

Hydro osmotic power

Ongoing investment in intellectual property has resulted in the development of hydro-osmotic power, which generates energy by mixing water with different levels of salinity. The technology harnesses the pressure generated to drive a reverse osmosis plant, and it can also generate electricity. The development of this exciting renewable and emission-free form of energy

represents a potentially important new revenue stream. The low operating costs and positive environmental impact make it a very attractive proposition.

Intellectual property

In addition to the existing patents and patent applications covering the group's core technologies, Modern Water has filed two new desalination-related patent applications. The group's ongoing research and collaboration arrangements with Surrey University have produced six further desalination-related patent applications, and the group has taken up the rights to these technologies.

People and premises

The group is now firmly settled into the Guildford head office with the total number of full-time staff currently standing at more than 20 with an office now established in Oman. The company has introduced a performance bonus scheme which allows staff to take bonuses in shares rather than cash, with an opportunity to earn additional shares according to company performance over two years. The first bonus awards were made in September 2008, and all eligible employees elected to take this bonus in shares.

Cash flows

The group began the year with £29.1m of net cash. The major cash inflow was interest of £1.75m. Cash out comprised of £0.3m net cash invested in subsidiaries and joint ventures, £0.6m of capital expenditure with the balance of £3.0m in operating cash outflows, resulting in £26.9m cash (£26.8m net cash after borrowings) at 31 December 2008.

Conclusion

In conclusion, Modern Water is well positioned for the next phase of the company's development. Our financial position is robust, we have two projects underway within our key markets, and interest in our suite of technologies remains strong. We look forward to building on our recent successes and to delivering value to all of our shareholders in the coming year.

Simon Humphrey
Chief Executive

11 March 2009

Group income statement

Year ended 31 December 2008

	Year ended 31 December 2008	14 month period ended 31 December 2007
	£000	£000
Administrative expenses	(4,110)	(2,719)
Operating loss	(4,110)	(2,719)
Net finance income	1,722	1,020
Share of loss of joint venture	(9)	-
Share of loss of associate	(35)	(50)
Loss on ordinary activities before taxation	(2,432)	(1,749)
Tax on loss on ordinary activities	27	16
Loss for the period	(2,405)	(1,733)
Attributable to:		
Equity holders of the company	(2,176)	(1,632)
Minority interest	(229)	(101)
	(2,405)	(1,733)
Loss per share for the period (attributable to equity holders of the company)		
Basic loss per share	3.70p	4.60p
Diluted loss per share	3.70p	4.50p

Group statement of changes in equity

Year ended 31 December 2008

	Called up share capital £000	Share premium account £000	Merger reserve £000	Retained earnings £000	Minority interest £000	Total equity £000
Group						
Equity as at 1 January 2008	147	30,532	12,782	(380)	173	43,254
Acquisition of subsidiaries	-	-	-	-	90	90
Purchase of own shares	-	-	-	(35)	-	(35)
Share-based payments	-	-	-	486	-	486
(Loss) for the period	-	-	-	(2,176)	(229)	(2,405)
Equity as at 31 December 2008	147	30,532	12,782	(2,105)	34	41,390

Period ended 31 December 2007

	Called up share capital £000	Share premium account £000	Merger reserve £000	Retained earnings £000	Minority interest £000	Total equity £000
Group						
Equity as at 11 October 2006	-	-	-	-	-	-
Acquisition of subsidiaries	27	-	12,782	-	274	13,083
Proceeds from shares issued	120	30,532	-	-	-	30,652
Share-based payments	-	-	-	1,252	-	1,252
(Loss) for the period	-	-	-	(1,632)	(101)	(1,733)
Equity as at 31 December 2007	147	30,532	12,782	(380)	173	43,254

Group balance sheet

As at 31 December 2008

	2008	2007
	£000	£000
Assets		
Non-current assets		
Property, plant and equipment	779	409
Intangible assets	14,135	13,772
Investments	481	257
	15,395	14,438
Current assets		
Trade and other receivables	518	688
Cash and cash equivalents	26,855	29,059
	27,373	29,747
Total assets	42,768	44,185
Equity and liabilities		
Equity		
Called up share capital	147	147
Share premium account	30,532	30,532
Merger reserve	12,782	12,782
Retained earnings	(2,105)	(380)
	41,356	43,081
Minority interest	34	173
Total equity	41,390	43,254
Liabilities		
Current liabilities		
Trade and other payables	951	472
Borrowings	8	32
	959	504
Non-current liabilities		
Deferred tax liability	419	427
Total liabilities	1,378	931
Total equity and liabilities	42,768	44,185

Group cash flow statement

Year ended 31 December 2008

	2008	2007
	£000	£000
Cash flows from operating activities		
Cash used in operations	(3,007)	(1,270)
Net cash flows used in operating activities	(3,007)	(1,270)
Cash flows from investing activities		
(Purchase) of property, plant, equipment	(460)	(433)
(Purchase) of patents and development costs	(149)	(163)
Acquisition of subsidiaries, net of cash acquired	66	(110)
Acquisition of joint venture	(400)	—
Acquisition of associate	—	(167)
Acquisition of other investments	—	(90)
Interest received	1,747	633
Net cash flows used in investing activities	804	(330)
Cash flows from financing activities		
Proceeds from issue of shares	—	32,253
Purchase of own shares	(35)	—
Transaction costs of issuing shares	—	(1,601)
Proceeds from borrowings	—	15
Repayment of borrowings	(24)	(8)
Net cash flows from financing activities	(59)	30,659
Net (decrease)/increase in cash and cash equivalents	(2,262)	29,059
Cash and cash equivalents at the beginning of the period	29,059	—
Exchange gains on bank balances	58	—
Cash and cash equivalents at the end of the period	26,855	29,059

1. Basis of preparation

The board of directors approved these results on 11 March 2009. The financial information set out above is abridged and does not constitute the company's statutory financial statements for the year to 31 December 2008. Statutory financial statements for the year ended 31 December 2008 have been reported on by the company's auditors. The report for the year ended 31 December 2008 was unqualified.

The financial statements of Modern Water plc have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The only change in accounting policies from the consolidated financial information for the year ended 31 December 2007 has been the adoption of IFRS 7 "Financial Instruments: disclosures".

2. Operating loss

Operating loss is stated after charging:

	Year ended 31 December 2008 £000	14 month period ended 31 December 2007 £000
Employee benefits – share based	486	820
Other share-based payments	—	432

Total share based payments	486	1,252
Employee benefits expense	1,831	532
Amortisation of intangible assets	155	73
Depreciation	90	26
Minimum lease payments recognised as an operating lease expense	128	63
Research and development	268	210
Auditor's remuneration	66	199

3. Intangible assets

Group	Goodwill £000	Patent costs £000	Development costs £000	Research and development acquired as part of a business combination	Total £000
				£000	
Cost					
At 11 October 2006	-	-	-	-	-
Additions	-	116	57	-	173
Acquisition of subsidiaries	12,042	57	-	1,620	13,719
At 31 December 2007	12,042	173	57	1,620	13,892
Additions	-	75	74	-	149
Acquisition of subsidiary	284	17	-	70	371
At 31 December 2008	12,326	265	131	1,690	14,412
Amortisation					
At 11 October 2006	-	-	-	-	-
Amortisation charge for the period	-	13	3	57	73
Acquisition of subsidiaries	-	9	-	38	47
At 31 December 2007	-	22	3	95	120
Amortisation charge for the year	-	19	41	95	155
Acquisition of subsidiaries	-	-	-	2	2
At 31 December 2008	-	41	44	192	277
Net book amount					
At 11 October 2006	-	-	-	-	-
At 31 December 2007	12,042	151	54	1,525	13,772
At 31 December 2008	12,326	224	87	1,498	14,135

The acquisition of Cymtox Limited gave rise to the recognition of goodwill and intangible assets in 2008.

The additions to patent costs arise from legal and other fees incurred in securing patents. The additions to development costs arise from costs incurred once there was sufficient certainty over the technical feasibility and commercial viability over the underlying technology.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. There was no goodwill impairment recorded in the year.

4. Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Modern Water plc (the "company") will be held at 10.00am on 28 April 2009 at the offices of Modern Water plc, Bramley House, The Guildway, Old Portsmouth Road, Guildford GU3 1LR.

5. Availability of Annual Report

Copies of the full statutory accounts will be available from the registered office at Bramley House, The Guildway, Old Portsmouth Road, Guildford GU3 1LR from 27 March 2009 and will also be available on the company's website at www.modernwater.co.uk.