14 September 2016

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

INTERIM RESULTS

Modern Water (AIM:MWG), the owner of leading technologies for water and wastewater treatment and the monitoring of water quality, announces half-year results for the 6 months ended 30 June 2016

Highlights

Operational

- Re-organisation and cost control to save a further £0.6m per year
- Cash burn halved to £1.1m in H1 2016 from £2.2m in H1 2015
- First AquaPak™ order received
- Launch of new QuickCheck™ Atrazine strip test
- Launch of new SmartReader™ photometer
- Appointment of new President of Monitoring Division

Financial

- Group Overheads reduced by 18% to £2.18m (H1 2015: £2.64m)
- Group Operating losses reduced by 17% to £1.84m (H1 2015: £2.22m)
- Cash balance of £2.07m (H1 2015: £4.65m) and debt free
- Group revenues decreased by 27% to £1.14m (H1 2015: £1.56m)
- Group Gross Margin increased to 51% (H1 2015 43%)

Commenting on the results, Alan Wilson, Chairman of Modern Water, said:

"Modern Water has continued to adhere to its clearly defined strategy and I am pleased to report to shareholders that it is beginning to deliver demonstrable benefits, as highlighted by our first order for an AquaPak™ in the Middle East. Further endorsement of our progress is the interest we have received in our membrane technology from notable international water companies and contractors. I am also encouraged by the progress we have made in restructuring and refocusing our Monitoring Division, which is showing signs of returning better profit margins."

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Notes to editors

Modern Water owns, installs and operates broad based membrane systems using world-leading Forward Osmosis (FO) membrane technologies; supplies packaged seawater Reverse Osmosis (RO) desalination systems; supplies wastewater treatment solutions; 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

Modern Water has continued to adhere to its clearly defined strategy and I am pleased to report to shareholders that it is beginning to deliver demonstrable benefits, as highlighted by our first order for an AquaPak™ in the Middle East. Further endorsement of our progress is the interest we have received in our membrane technology from notable international water companies and contractors. I am also encouraged by the progress we have made in restructuring and refocusing our Monitoring Division, which is showing signs of returning better profit margins.

Our cost control and restructuring initiatives have generated further annualised, sustainable savings to the business of £0.6m and reduced overheads some 18%, helping to further reduce the Operating Loss by 17% to £1.84m (H1 2015: £2.22m). Cash balances for the period stood at £2.07m (H1 2014: £4.65m) and the Company remains debt free.

Gross Margins were improved in the Monitoring division, increasing to 51% (H1 2015: 43%) although not fully mitigating a reduction in revenues in the division to £1.14m (H1 2015: £1.56m), predominantly due to weakness the Chinese market, which we expect to reverse in H2. However, it is pleasing to report that our ongoing R&D operations have developed and launched new products within the Monitoring division during the period which have achieved early sales.

Elsewhere in the business, Modern Water also generated a first order from Oman for AquaPak™, our containerised desalination plant and have proposals at an advanced stage with a range of other customers. Further orders for AquaPak™ are therefore likely before the end of the year.

As previously announced, our joint venture with Northumbrian Water was appointed preferred bidder for the design, build and operation of the Wastewater Treatment Plant in Gibraltar. We now await HM Government of Gibraltar's announcement on the project's timing.

Whilst we are pleased that the strategy is beginning to gain traction, all employees at Modern Water are united and dedicated in working diligently to further improve the efficiency of operations, our commercial outreach and ultimately, the profitability of our business. We are confident that we will continue to generate gains in the near to medium term.

I would like to take this opportunity to thank all of our people and advisers for their hard work and look forward to achieving future successes together and also to thank our shareholders for their ongoing support.

Alan Wilson
Chairman
13 September 2016

Chief Executive's Statement

Continued Cost Reduction

A key focus of the first half of 2016 has been cost control. Purchasing improvements and targeted sales have helped increase the Group's Gross Margin from 43% in H1 2015 to 51% and a further £0.6m of annualised savings have been made to overheads, reducing the Operating Loss to £1.8m (H1 2015: £2.2m). Including tax recoveries and the benefits of the fall in Sterling post Brexit, the Group's net loss for the first half improved more than 30% to £1.4m (H1 2015: £2.2m).

Membrane Processes Division

Our partnership with Advent Envirocare in India is developing well. The first membrane Brine Concentration pilot plant is due to be installed at a customer's site in India in November this year.

A Forward Osmosis pilot plant for pre-treatment of flows to Thermal Desalination plants is under construction by our partner Bilfinger Deutsche Babcock in Abu Dhabi. The plant is on track to be deployed on a live site in the fourth quarter of 2016.

Our Forward Osmosis desalination plant at Al Najdah in Oman continues to operate extremely well and provide potable water to the local community. The climate conditions at Al Najdah due to its desert location are highly challenging for desalination plants and it is testament to our technology that the plant continues to run successfully and deliver benefits to the region.

Monitoring Division

Under its new President, Doug Workman, Modern Water's Monitoring Division has continued to focus on its key markets of North America, Europe and China. Sales revenue is lower than the same period in 2015, predominantly due to reduced sales volume in China. However, our dedicated sales team has been focussed on improving both the sales mix and the margin, resulting in a significant increase in the Monitoring Division's margin to 51% compared to 43% for 2015.

As R&D efforts continue to expand the portfolio across the Group's operations, we were pleased to launch two new products for our Monitoring Division during the period: The QuickCheck™ strip test and reader for Atrazine detection; and the SmartReader™ photometer, of which first sales have already been achieved.

The QuickCheck™ strip test provides rapid, simple-to-use detection of Atrazine, the most detected pesticide in drinking water in the United States. Our product is sensitive in the range of 0.75 parts-per-billion (ppb) to 10 ppb, a wide ppb range which allows our customers to see the Atrazine trend over time and take corrective action when their ppb threshold is reached, with results available in just 10 minutes.

Our Smart Reader photometer provides a simpler method for using the Company's RaPID Assay® and EnviroGard® water and wastewater test kits to provide quicker and more accurate results.

AquaPak™

Modern Water has received its first order for an AquaPak™ containerised desalination plant in Oman. The plant will be delivered before the end of 2016. We are pleased to report that a significant number of additional proposals are at an advanced stage with various potential customers and we are confident that we will receive further orders before the end of the year.

Gibraltar Wastewater Treatment Plant

As previously reported, the project for the design, build and operation of a wastewater treatment plant in Gibraltar was tendered by HM Government of Gibraltar in accordance with the strict procedures set out in mandatory EU public procurement rules and the government has confirmed its commitment to the project, with timing yet to be confirmed.

The JV between Modern Water and Northumbrian Water has fulfilled its current obligations and continues to assist in the project's advancement.

Outlook

Modern Water continues to execute its strategy and has achieved a number of its goals in the first half of 2016: further improvements in cost control, improved margins in the Monitoring Division and a first AquaPak™ order.

Cash burn reduced significantly in H1 and further operational and commercial benefits from the actions we have taken will flow through in H2. Our focus on cost control will continue, with ongoing initiatives that will further reduce cash burn in 2017.

The Company is well positioned to capitalise on the opportunities our proven technology offers, grow revenue and further improve Gross Margin in the second half of 2016 and beyond.

Simon Humphrey
Chief Executive Officer
13 September 2016

GROUP STATEMENT OF COMPREHENSIVE INCOME (UNAUDITIED)

SIX MONTH PERIOD ENDED 30 JUNE 2016

	Note	**6 months ended 30 June 2016 £'000**	6 months ended 30 June 2015 £'000	Year ended 31 December 2015 £'000
Revenue	6	**1,135**	1,562	3,232
Cost of sales	6	**(552)**	(885)	(2,024)
Gross profit	6	**582**	677	1,208
Administrative expenses	7	**(2,175)**	(2,639)	(4,936)
Other gains		**—**	**—**	18
Goodwill and intangibles impairment		**—**	**—**	—
Operating loss before interest, tax, depreciation & amortisation		**(1,592)**	(1,962)	(3,710)
Depreciation and amortisation		**(249)**	(258)	(527)
Operating loss		**(1,842)**	(2,220)	(4,237)
Finance income		**127**	28	210
Finance costs		**—**	—	—
Loss on ordinary activities before taxation		**(1,715)**	(2,192)	(4,027)
Taxation		**253**	4	249
Loss for the half year		**(1,462)**	(2,188)	(3,778)
Other comprehensive income				
Items may be subsequently reclassified to profit or loss				
Foreign currency translation differences on foreign operations		**38**	22	(93)
Total comprehensive loss for the half year		**(1,424)**	(2,166)	(3,871)
Loss attributable to:				
Owners of the parent		**(1,462)**	(2,188)	(3,778)
Non-controlling interests		**—**	—	—
		(1,462)	(2,188)	(3,778)
Total comprehensive loss attributable to:				
Owners of the parent		**(1,424)**	(2,166)	(3,871)
Non-controlling interests		**—**	—	—
		(1,424)	(2,166)	(3,871)
Loss per share attributable to the equity holders of the parent				
Basic loss per share	9	**1.84p**	2.75p	4.75p
Diluted loss per share	9	**1.84p**	2.75p	4.75p

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

GROUP STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 30 JUNE 2016

	30 June 2016 £'000	30 June 2015 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	**274**	354	339
Intangible assets	**3,527**	3,760	3,647
Investments	**—**	—	—
	3,802	4,114	3,986
Current assets			
Inventories	**1,475**	1,890	1,459
Trade and other receivables	**811**	1,142	1,046
Cash and cash equivalents	**2,065**	4,649	3,161
	4,350	7,610	5,666
Total assets	**8,152**	11,724	9,652
Equity and liabilities			
Equity			
Ordinary shares	**199**	199	199
Share premium account	**40,032**	40,032	40,032
Merger reserve	**398**	398	398
Accumulated losses	**(33,109)**	(29,988)	(31,773)
	7,520	10,641	8,856
Non-controlling interests	**148**	126	126
Total equity	**7,667**	10,767	8,982
Liabilities			
Non-current liabilities			
Deferred tax liabilities	**39**	193	42
Current liabilities			
Trade and other payables	**445**	764	628
Total liabilities	**485**	975	670
Total equity and liabilities	**8,152**	11,724	9,652

The notes form an integral part of this condensed consolidated interim financial information.

GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2016

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Six month period ended 30 June 2015							
Balance as at 1 January 2015	**199**	**40,032**	**398**	**(27,958)**	**12,671**	**126**	**12,797**
Comprehensive loss							
Loss for the period ended 30 June 2015	—	—	—	(2,188)	(2,188)	—	(2,188)
Foreign currency translation differences	—	—	—	22	22	—	22
Total comprehensive loss	—	—	—	(2,166)	(2,166)	—	(2,166)
Transactions with owners							
Share-based payments	—	—	—	136	136	—	136
Total transactions with owners	—	—	—	136	136	—	136
Balance as at 30 June 2015	**199**	**40,032**	**398**	**(29,988)**	**10,641**	**126**	**10,767**
Six month period ended 30 June 2016							
Balance as at 1 January 2016	**199**	**40,032**	**398**	**(31,773)**	**8,856**	**126**	**8,982**
Comprehensive loss							
Loss for the period ended 30 June 2016	—	—	—	(1,462)	(1,462)	—	(1,462)
Foreign currency translation differences	—	—	—	38	38	22	59
Total comprehensive loss	—	—	—	(1,424)	(1,424)	22	(1,403)
Transactions with owners							
Share-based payments	—	—	—	88	88	—	88
Total transactions with owners	—	—	—	88	88	—	88
Balance as at 30 June 2016	**199**	**40,032**	**398**	**(33,109)**	**7,520**	**148**	**7,667**

The notes form an integral part of this condensed consolidated interim financial information.

GROUP STATEMENT OF CASH FLOWS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2016

	Note	**6 months ended 30 June 2016 £'000**	6 months ended 30 June 2015 £'000	Year ended 31 December 2015 £'000
Cash flows from operating activities				
Cash used in operations	10	**(1,364)**	(2,092)	(3,580)
Net cash flows used in operating activities		**(1,364)**	(2,092)	(3,580)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(37)**	(22)	(109)
Proceeds from sale of property, plant and equipment		**—**	—	—
Purchase of patents and development costs		**(30)**	(15)	(54)
Interest received		**3**	13	20
Tax Received		253	—	93
Net cash flows used in investing activities		**190**	(24)	(50)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		—	—	—
Net cash flows used in financing activities		—	—	—
Net (decrease)/increase in cash and cash equivalents		**(1,174)**	(2,116)	(3,630)
Cash and cash equivalents at start of period		**3,161**	6,801	6,801
Exchange (losses)/gains on bank balances		**77**	(36)	(10)
Cash and cash equivalents at end of period		**2,064**	4,649	3,161

The notes form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2016

1. General information

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

This condensed consolidated interim financial information was approved for issue by the Board of Directors on 13 September 2016. These interim financial results are unaudited and do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2015 were approved by the board of directors on 15 March 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

2. Basis of preparation and going concern

2.1 Basis of preparation

The principal accounting policies have been applied consistently throughout the period in the preparation of these financial statements. This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with the AIM Rules for Companies of the London Stock Exchange plc and with IAS 34, 'Interim financial reporting' as adopted by the European Union.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2 Going concern

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

The Group's forecasts prepared by the directors reflect that funding requirements have reduced since 2014, as the result of the restructuring plan, delivering an annualised net £1.3m reduction in expenditure. The Group's cash burn reduced to £1.1m for the first half of 2016, compared to £2.2m in the first half of 2015.

The Group's remaining funding requirements will be met from:

- The £2.1m opening cash balance;
- R&D tax credits receipts from HMRC for 2015;
- Improvement in the Group's working capital, specifically a further reduction in inventories and aged trade receivables;
- Continued improvement in the Monitoring Division's trading; and
- Cash receipts from initial sales of AquaPak™ plants.

3. Accounting policies

3.1 Accounting policy and disclosure changes

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015.

4. Principal risks and uncertainties

A detailed explanation of the principal risks and uncertainties affecting the Group, and the steps taken to manage them, is set out in the Directors' Report section of the Group's 2015 Annual Report and Accounts, which is available of the Group's website at www.modernwater.com. The principal risks and uncertainties are summarised as follows:

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

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

5. Critical accounting estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under current circumstances. Actual results may differ from these estimates. The key sources of estimation uncertainty during the current year were consistent with the prior year, as detailed in the Group's 2015 Annual Report and Accounts.

6. Segmental analysis

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

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

Statement of Comprehensive Income	**6 months ended 30 June 2016**				6 months ended 30 June 2015			
	Membrane £'000	**Monitoring £'000**	**Central £'000**	**Total £'000**	Membrane £'000	Monitoring £'000	Central £'000	Total £'000
Revenue	**—**	**1,135**	**—**	**1,135**	—	1,562	—	1,562
Cost of sales	**—**	**(552)**	**—**	**(552)**	—	(885)	—	(885)
Gross profit	**—**	**582**	**—**	**582**	—	677	—	677
Administrative expenses	**(718)**	**(829)**	**(540)**	**(2,087)**	(762)	(882)	(859)	(2,503)
Share-based payments	**—**	**—**	**(88)**	**(88)**	—	—	(136)	(136)
Operating profit/(loss) before tax depreciation and amortisation	**(718)**	**(247)**	**(628)**	**(1,592)**	(762)	(205)	(995)	(1,962)
Depreciation and amortisation	**—**	**—**	**(249)**	**(249)**	—	—	(258)	(258)
Operating profit/(loss)	**(718)**	**(247)**	**(877)**	**(1,842)**	(762)	(205)	(1,253)	(2,220)
Finance income	**—**	**—**	**127**	**127**	—	—	28	28
Finance costs	**—**	**—**	**—**	**—**	—	—	—	—
Profit/(loss) before taxation	**(718)**	**(247)**	**(750)**	**(1,715)**	(762)	(205)	(1,225)	(2,192)
Taxation	**—**	**—**	**253**	**253**	—	—	4	4
Profit/(loss) for the period	**(718)**	**(247)**	**(497)**	**(1,462)**	(762)	(205)	(1,221)	(2,188)

7. Administrative expenses by nature

	Note	**6 months ended 30 June 2016 £'000**	6 months ended 30 June 2015 £'000	Year ended 31 December 2015 £'000
Wages and salaries		**920**	1,078	2,129
Social security costs		**100**	104	201
Pension costs		**44**	46	94
Other employee benefits		**74**	78	149
Share-based payments	8	**88**	136	56
Operating lease payments		**190**	177	417
Research and development		**30**	112	156
Other administrative expenses		**729**	908	1,734
Total administrative expenses before depreciation and amortisation		**2,175**	2,639	4,936
Depreciation and amortisation charges		**249**	258	527
Total administrative expenses including depreciation and amortisation		**2,424**	2,897	19,071

8. Share-based payments

	6 months ended 30 June 2016 £'000	6 months ended 30 June 2015 £'000	Year ended 31 December 2015 £'000
Options (including EMI)	**88**	**118**	36
Conditional share awards	**1**	**18**	20
Equity-settled share-based payments	**88**	**136**	56
Cash-settled share-based payments	—	—	—
Total share-based payments charged to the income statement	**88**	**136**	56

9. Loss per share

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

	6 months ended 30 June 2016 £'000	6 months ended 30 June 2015 £'000	Year ended 31 December 2015 £'000
Loss attributable to equity holders of the Company	**1,462**	2,188	3,778
Weighted average number of ordinary shares in issue (thousands)	**79,505**	79,505	79,505
Basic loss per share	**1.84p**	2.75p	4.75p

10. Net cash flows used in operating activities

	6 months ended 30 June 2016 £'000	6 months ended 30 June 2015 £'000	Year ended 31 December 2015 £'000
Loss on ordinary activities before taxation	**(1,715)**	(2,192)	(4,027)
Adjustments for:			
Depreciation of property, plant and equipment	**99**	112	228
Amortisation of intangible assets	**150**	146	299
Net finance (income)/cost	**(127)**	(28)	(210)
Share-based payments	**88**	136	56
Movements in working capital:			
(Increase)/Decrease in inventories	**64**	(365)	27
Decrease in trade and other receivables	**277**	544	811
(Decrease) in trade and other payables	**(201)**	(445)	(764)
Cash used in operations	**(1,364)**	(2,092)	(3,580)

11. Related party transactions

IP Group plc held 20.0% of the ordinary share capital of the Company as at 30 June 2016 and appoints a non-executive director, and it is therefore deemed a related party. A service agreement dated 1 December 2006 was made between the Company and IP Group plc, whereby IP Group plc provides strategic, business development and administrative services to the Company. Fees for the period were £15,000 (2015: £15,000) and as at 30 June 2016 £7,500 (31 December 2015: £7,500) was outstanding under this agreement.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

SIX MONTH PERIOD ENDED 30 JUNE 2016

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

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

The directors of Modern Water plc are listed in the Modern Water plc Annual Report and Accounts 2015. A list of the current directors is maintained on the Company's website www.modernwater.com.

Alan Wilson
Chairman

Simon Humphrey
Chief Executive Officer

13 September 2016