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12 February 2013

Modern Water plc
(“Modern Water” or “the Group”)

PLACING TO RAISE £10 MILLION

Modern Water plc (LSE: MWG) announces today that it has raised, subject to certain conditions, £10.0 million (approximately £9.5 million net of expenses) by way of a placing of 20,000,000 new Ordinary Shares (the “Placing Shares”) with both new and existing institutional shareholders at a price of 50 pence per Ordinary Share.

The Placing Price is at a discount of 17.7 per cent. to the closing middle market price of 60.75 pence per Ordinary Share on 11 February 2013, the latest date prior to this Announcement.

The Placing Shares will, upon Admission, rank *pari passu* in all respects with the Ordinary Shares in issue as at the date of this Announcement, including as regards the right to receive all dividends or other distributions declared, made or paid after Admission. The Placing Shares will represent 25.2 per cent. of the Company’s enlarged issued ordinary share capital immediately following completion of the Placing.

The net proceeds of the issue of the Placing Shares are expected to be approximately £9.5 million and will enable the Company to pursue opportunities identified by its membrane division to commercialise its Forward Osmosis technology, particularly across China and the Middle East, and to also grow Modern Water’s monitoring business by licensing and acquiring innovative, proven products to leverage its international distribution network.

A general meeting of Modern Water to approve the Placing will be held on 28 February 2013 at Bramley House, The Guildway, Old Portsmouth Road, Guildford, Surrey GU3 1LR at 10.00 a.m.

Neil McDougall, Executive Chairman of Modern Water said: “We are delighted by the strong support, demonstrated by both existing and new shareholders, for the fundraising announced today which was oversubscribed. This is a great vote of confidence in Modern Water. The funds raised will enable us to increase the level and reach of market activities and invest in our growth strategy in key markets, with a particular focus on activities in China. We intend to invest in further improvements in membrane efficiency for the Membrane Processes Division and to expand the Monitoring Division through acquisitions.”

For further information:

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1. Background to the Placing

Modern Water owns, installs and operates membrane technology and develops and supplies advanced systems for water monitoring.

(a) Membrane Processes Division

The Company's membrane division uses Modern Water's patented Forward Osmosis technology platform which has a range of commercial applications. This process has successfully completed technical development and proving phases and is now in the stage of full commercial development with several projects and trade agreements achieved.

Overview of technology benefits

There are several benefits to using Modern Water's Forward Osmosis technology rather than traditional Reverse Osmosis. These benefits include: up to 40% energy savings, better product water quality, lower fouling of membranes, reduced chemical cost and higher output of plant due to reduced fouling.

Operational progress

Following the successful production of water at a proving plant in Gibraltar in 2008, the following year saw Modern Water produce water at a pilot plant in Oman. In 2011, Modern Water was awarded the world's first commercial contract for the development of a Forward Osmosis desalination plant at a second location in Oman and this was commissioned during 2012.

Desalination market and opportunity

Demand in the global desalination market is estimated to grow from under six million cubic metres in 2010 to over 10 million cubic metres by 2016. Currently, our key markets are in the Middle East and China:

- The world's most water stressed countries are in the Middle East and currently 70% of all desalination plants are located in this region. The combination of rising temperatures and expanding populations suggest that water scarcity will increase, with groundwater production yields expected to fall due to over-exploitation of non-renewable sources. This, taken with many of the desalination facilities coming up for renewal, having been built in the initial desalination boom in the early 1980s, indicates a market opportunity in the Middle East.

- It is reported that China is expected to become the second largest desalination market in the world after Saudi Arabia over the next four and a half years. In 2011, China had 20% of the world's population but only 7% of the water resources and, as of April 2012, it was reported that almost 90% of the underground water in Chinese cities was contaminated with industrial and biological pollution, and 400 cities out of 668 in China face challenges from water scarcity.

(b) Monitoring Division

The Company's monitoring division provides products for the detection of toxicity, trace metals and environmental contamination. The division has an extensive international distribution network and the Directors intend to grow the business by licensing and acquiring innovative, proven products to leverage this network.

2. Recent developments

In December 2012, a framework agreement was signed between Modern Water and Hangzhou Water, a leader in the desalination industry in China. Hangzhou Water has a 60% share in the Chinese desalination market. The framework agreement will allow both organisations to jointly identify and develop projects in China, including seawater desalination plants and other water-related opportunities.

In 2012, a marketing agency agreement was signed with Kazema in Kuwait which provides for Modern Water to work together with Kazema to promote Modern Water's Forward Osmosis technology for make-up water, which will be used in evaporative cooling systems including district cooling and industrial cooling applications as an alternative to using potable water or treated sewage effluent.

In September 2012, Modern Water commissioned the Al Najdah plant in Oman producing 200m³ of water daily. Modern Water was awarded the contract in July 2011 and following completion in September 2012, a contract with the Public Authority of Electricity and Water in Oman entered a 12 month operation and maintenance phase.

3. Strategy and current trading

Strategy

During 2013, the Directors intend that the Company will concentrate on seeking to:

- scale up the level and reach of market activities in both our membrane and monitoring divisions;
- develop projects with Hangzhou Water – we have identified a number of potential projects and hope to announce our first project within six months;
- enter the industrial water market in China, with a potential partner;
- build on existing relationships in the Middle East to secure further projects;
- progress further with projects identified with its partner Kazema in Kuwait and other countries in the region; and

- further accelerate growth in the Monitoring division through strategic partnerships and targeted acquisitions and to grow by licensing and acquiring innovative, proven products to leverage through our global distribution network.

Current trading

The Company announced a trading update on 29 January 2013 and confirmed that trading for the 2012 financial year has been in line with management expectations. The Group remains debt free with net cash of approximately £5.7 million as at 31 December 2012. The Company expects to announce results for the year ended 31 December 2012 in March 2013.

4. Use of proceeds

The Directors intend that the net Placing Proceeds will be used by the Company to:

- invest in Modern Water's growth strategy in key markets, particularly China and the Middle East;
- increase the level and reach of market activities;
- invest in the next level of improvements in membrane efficiency;
- acquire additional water monitoring companies; and
- strengthen its balance sheet.

5. Details of the Placing

The Company proposes raising £10.0 million, (approximately £9.5 million net of expenses) by way of a conditional, non-pre-emptive placing of 20,000,000 new Ordinary Shares at the Placing Price. The Placing Shares will be placed by Numis as agent for the Company and pursuant to the Placing Agreement, with institutional and other professional investors. The Placing is being underwritten by Numis.

The Placing Price represents a discount of approximately 17.7 per cent. to the closing mid-market price of the Ordinary Shares of 60.75 pence on 11 February 2013 (being the last practicable dealing day prior to the date of this announcement). The Placing Shares will represent approximately 25.2 per cent. of the Ordinary Share capital as enlarged by the Placing and will, when issued, rank *pari passu* in all respects with the other Ordinary Shares then in issue, including all rights to all dividends and other distributions declared, made or paid following Admission.

The Placing Agreement is conditional upon (amongst other things) the Placing Agreement not having been terminated, the passing of the Resolutions at the General Meeting and, in relation to the First Placing Shares, First Admission occurring on or before 8.00 a.m. on 1 March 2013 (or such later date as Numis and the Company may agree, not being later than 3.00 p.m. on 28 March 2013) and in relation to the Second Placing Shares, First Admission having occurred and Second Admission occurring on or before 4 March 2013 (or such later date as Numis and the Company may agree, not being later than 3.00 p.m. on 29 March 2013).

The Placing Agreement contains warranties from the Company in favour of Numis in relation to (amongst other things), the Company and its business. In addition, the Company has agreed to indemnify Numis in relation to certain liabilities it may incur in undertaking the Placing. Numis has the right to terminate the Placing Agreement in certain circumstances prior to First Admission, in particular, it may terminate in the event that there has been a material breach of any of the warranties or for *force majeure*.

In order to fall within the requirements of the legislation governing VCTs and EISs, the Placing is being carried out in two tranches. The First Placing Shares will be issued to those investors who may seek relief under the VCT and EIS legislation. The Second Placing Shares will be issued to non-EIS and non-VCT investors and to other investors who will not be seeking relief under the VCT and EIS legislation.

Application will be made for the Placing Shares to be admitted to trading on AIM. It is expected that dealings in the First Placing Shares will commence on AIM on 1 March 2013. It is expected that dealings in the Second Placing Shares will commence on AIM on 4 March 2013.

It should be noted that First Admission is not conditional upon Second Admission. However, Second Admission is conditional on First Admission.

The Directors have also agreed to subscribe for Second Placing Shares. Assuming full implementation of the Second Placing, the interests of the Directors as at the date of this document and on Second Admission, are or are expected to be as follows:

Director	As at the date of this announcement		Following the Placing		
	Number of Ordinary Shares	Percentage of issued share capital	Number of Second Placing Shares to be allotted and issued	Number of Ordinary Shares	Percentage of issued share capital
Neil McDougall	6,265,000	10.53	60,000	6,325,000	7.96
Simon Humphrey	1,812,000	3.05	20,000	1,832,000	2.30
Michael Gradon	746,518	1.25	200,000	946,518	1.19
Mike Townend	575,000	0.97	30,000	605,000	0.76
Robert Clarke	350,000	0.59	150,000	500,000	0.63

6. Related Party Transaction

IP Group plc (IP Group), which has an interest in 12,415,551 Existing Ordinary Shares (representing an interest of approximately 20.9 per cent. of the existing issued share capital) has agreed to subscribe for 3,485,502 Second Placing Shares at the Placing Price. Consequently, immediately upon Second Admission, IP Group will be interested in 20.0 per cent. of the Ordinary Share capital as enlarged by the Placing.

By virtue of its current interests in the Company, IP Group is considered to be a “related party” as defined under the AIM Rules and accordingly its participation in the Placing constitutes a related party transaction for the purposes of Rule 13 of the AIM Rules.

The Directors (apart from Mike Townend who is not regarded as independent due to being IP Group’s representative on the Board), having consulted with the Company’s nominated adviser, Numis, consider that the terms on which IP Group is participating in the Placing to be fair and reasonable insofar as Shareholders are concerned.

7. VCT and EIS Investments

The Company has applied for confirmation from the HMRC that the Company qualifies as a qualifying company for the purpose of the legislation relating to VCT and EIS investments. Neither the Company nor the Directors give any warranties or undertakings that VCT or EIS qualifying status will be available to investors or that, if given, such relief or status will not be withdrawn. Should the law regarding VCT and EIS investments change then any reliefs or qualifying status previously obtained may be lost.

Whilst the Company cannot guarantee to conduct its activities in a way to allow it to maintain its status as a qualifying VCT and EIS investment, the Directors intend, so far as possible, to do so. Circumstances may arise where the Directors of the Company believe that the interests of the Company are not best served by acting in a way that preserves VCT and EIS qualifying status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to secure or preserve any such relief or status claimed by any Shareholder.

The funds raised from the investment by VCT and EIS investors must be employed in a qualifying trade within two years of investment.

8. Shareholder Approval

The Placing is conditional, *inter alia*, upon the Company obtaining approval from its Shareholders to provide the Directors with authority to allot the Placing Shares and to disapply statutory pre-emption rights which would otherwise apply to the allotment of the Placing Shares. Accordingly, the General Meeting is being convened for the purpose of considering the Resolutions which will give the directors of the Company the necessary authorities to allot the Placing Shares.

9. Recommendation

The Directors consider that the Placing and the Resolutions are in the best interests of the Company and its Shareholders as a whole and accordingly recommend that the Shareholders vote in favour of the Resolutions as they intend to do in respect of their own legal and/or beneficial shareholdings amounting, in aggregate, to 9,748,518 Ordinary Shares, representing approximately 16.4 per cent. of the Ordinary Shares of the Company in issue as at the date of this announcement.

A circular will be posted to Shareholders later today, providing details of the Placing and incorporating a Notice of General Meeting. The General Meeting will be held on 28 February 2013 at Bramley House, The Guildway, Old Portsmouth Road, Guildford, Surrey GU3 1LR at 10.00 a.m.

The Company will also make copies of the Circular (including the notice of general meeting) available on its website at www.modernwater.co.uk.

Definitions

The following definitions apply throughout this Announcement, unless the context requires otherwise:

“Admission”	where the context requires: (i) in relation to the First Placing Shares, First Admission; and (ii) in relation to the Second Placing Shares, Second Admission
“AIM”	the market of that name operated by London Stock Exchange plc
“AIM Rules”	the AIM Rules for Companies, which sets out the rules and responsibilities for companies listed on AIM, as amended from time to time
“Board” or “Directors”	the board of directors of the Company, whose names are listed on page 8 of the Circular
“Circular”	circular of the Company giving (amongst other things) details of the Placing and incorporating the Notice of General Meeting
“Company” or “Modern Water”	Modern Water plc, a public limited company incorporated in England & Wales under registered number 5963927 and having its registered office at Bramley House, The Guildway, Old Portsmouth Road, Guildford, Surrey GU3 1LR, United Kingdom
“desalination”	the process of removing salt and other minerals from water in order to obtain fresh water suitable for animal or human consumption or for irrigation
“EIS”	an Enterprise Investment Scheme pursuant to the provisions of Part 5 of ITA
“Existing Ordinary Shares”	the 59,505,256 Ordinary Shares in issue at the date of the Circular, all of which are admitted to trading on AIM
“First Admission”	admission of the First Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
“First Placing”	the placing of the First Placing Shares by Numis on behalf of the Company at the Placing Price

“First Placing Shares”	1,580,050 new Ordinary Shares which are to be conditionally placed for cash with VCT and EIS investors in accordance with the terms of the Placing Agreement and whose allotment and issue is conditional, <i>inter alia</i> , on the passing of the Resolutions
“Form of Proxy”	the form of proxy for use by Shareholders in relation to the General Meeting
“Forward Osmosis”	the net movement of water across a selectively permeable membrane driven by a difference in osmotic pressure across the membrane, a selectively permeable membrane allows passage of water but rejects solute molecules or ions
“fresh water”	water with a salinity of less than 1,000 milligrams/litre dissolved salts
“General Meeting”	the general meeting of the Company to be held at 10.00 a.m. on 28 February 2013, notice of which is set out at the end of the Circular
“Group”	the Company, its subsidiaries and subsidiary undertakings
“Hangzhou Water”	Hangzhou Development Center of Water Treatment Technology, Company Limited in the People's Republic of China
“IP Group”	IP Group plc
“ITA”	the Income Tax Act 2007
“Kazema”	Kazema Global Holding KSCH
“Notice of General Meeting”	the notice of General Meeting, set out at the end of the Circular
“Ordinary Shares”	ordinary shares of 0.25 pence each in the capital of the Company
“Numis”	Numis Securities Limited, a private limited company incorporated in England & Wales under registered number 2285918 and having its registered office at 10 Paternoster Square, London EC4M 7LT
“Placing”	the proposed conditional, non-pre-emptive placing by Numis of the Placing Shares
“Placing Agreement”	the conditional agreement dated 12 February 2013 relating to the Placing, between the Company and Numis

“Placing Proceeds”	the proceeds of the issue of the Placing Shares pursuant to the Placing
“Placing Price”	50 pence per Placing Share
“Placing Shares”	the First Placing Shares and the Second Placing Shares
“Resolutions”	the resolutions to be proposed at the General Meeting as set out in the Notice of General Meeting
“Reverse Osmosis”	a method of separating water from dissolved salts by passing feedwater through a semipermeable membrane at a pressure greater than the osmotic pressure caused by dissolved salts
“Second Admission”	admission of the Second Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
“Second Placing”	the placing of the Second Placing Shares by Numis on behalf of the Company, at the Placing Price
“Second Placing Shares”	18,419,950 new Ordinary Shares which are to be conditionally placed for cash in accordance with the terms of the Placing Agreement and whose allotment and issue is conditional, <i>inter alia</i> , on the passing of the Resolutions
“Shareholders”	the holders of Ordinary Shares from time to time, each individually being a “Shareholder”
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“US” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“VCT”	a Venture Capital Trust within the meaning of Part 6 of ITA

All references in this announcement to “£”, “pence” or “p” are to the lawful currency of the United Kingdom, all references to US\$, \$ are to the lawful currency of the United States.

Important information

This Announcement is for information purposes only and does not constitute an offer to sell or an invitation to subscribe for or a solicitation of an offer to buy or subscribe for any securities in any jurisdiction including in which such an offer or solicitation is prohibited and is not for distribution in or into, without limitation, the United States, Canada, Australia, South Africa or Japan (the “Excluded Territories”).

The Placing Shares have not been and will not be registered under the United States Securities Act 1933 (as amended) or under the applicable securities laws of any state in the United States or any Excluded Territory and, unless an exemption under such act or laws is available may not be offered for sale or subscription or sold or subscribed directly or indirectly within the Excluded Territories or for the account or benefit of any national, resident or citizen of the Excluded Territories. No public offering of securities will be made in the United States. The distribution of this Announcement in other jurisdictions may be restricted by law and therefore persons into whose possession this Announcement comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdictions.

Numis, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Modern Water and for no one else in connection with the Placing and will not be responsible to anyone other than Modern Water for providing the protections afforded to clients of Numis nor for providing advice in relation to the Placing or any other matters referred to in this Announcement.

The contents of this Announcement are not to be construed as legal, financial or tax advice. If necessary, each recipient of this Announcement should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

Neither the content of the Company's website nor any website accessible by hyperlinks on the Company's website is incorporated in, or forms part of, this Announcement.

This Announcement includes "forward-looking statements" which includes all statements other than statements of historical fact, including, without limitation, those regarding the Group's financial position, business strategy, plans and objectives of management for future operations, or any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "would", "could" or similar expressions or negatives thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Group's control that could cause the actual results, performance or achievements of the Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future and therefore undue reliance should not be placed on such forward-looking statements. These forward-looking statements speak only as at the date of this document. The Company and Numis expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules.

Past performance cannot be relied on as a guide to future performance.