



MODERNWATER

Final results for 12-month period ended 31 December 2007

Modern Water moves ahead after successful first six months as a PLC

Highlights

- * Successful first six months as a PLC since IPO in June 2007
- * Agreement signed to locate commercial proving plant in Gibraltar
- * Gibraltar plant due to be operational by mid 2008
- * High level of interest in our technology from the Gulf, Australasia and the Mediterranean region
- * Cash balances of £29 million at 31 December 2007

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

“We are delighted to reflect on a successful first six months as a publicly listed company during which the Modern Water management team has been steadily delivering on the business plan. There has been a high level of interest in our desalination technologies and we are pleased to announce that we have agreed to install a proving plant in Gibraltar. This plant is due to be operational by mid 2008 and is a major break-through that will enable us to demonstrate the significant advantages of our desalination technology, including lower energy, capital and operational costs.”

For further information:

Modern Water plc
Neil McDougall, Executive Chairman
www.modernwater.co.uk

07740 930303
01483 696000

HeadLand Consultancy
Dudley White or Tom Gough

020 7367 5222

KBC Peel Hunt Ltd
Jonathan Marren or Oliver Stratton

020 7418 8900

Chairman's statement

It is with great pleasure that I make my first full report as Executive Chairman of Modern Water plc. The past year has been an exceptional one. The company was founded at the end of 2006. In June 2007, we raised £30 million on admission to the AIM market of the London Stock Exchange, and we were delighted that the share offer was well oversubscribed. Following admission, the management team has been steadily delivering against its plans whilst successfully laying important commercial and technical foundations for future growth.

With the lack of availability of fresh water becoming ever more acute we anticipate that there will continue to be growing demand for water and water-related products. With expectations that by 2025 two-thirds of the world's population will live in countries that are classified as water-stressed, our portfolio of technologies will revolutionise the provision of fresh water.

Sustainability and environmental responsibility lie at the heart of our business. Our technology has a positive impact on the environment as it reduces energy use by desalination plants and lowers the consumption and disposal of hazardous chemicals. Our processes reduce or eliminate the harmful emissions of salt brine seen in traditional desalination plants. We are also developing an exciting renewable and emission-free form of energy.

Since admission to AIM, a core focus has been the commercial roll out of our technology. I am pleased to report that there has been a very high level of interest internationally, particularly for our desalination technology. This has been most marked in the Gulf, Australasia and the Mediterranean region.

Neil McDougall

Executive Chairman

29 February 2008

I am delighted to announce, as part of this roll out, we have agreed to locate the first manipulated osmosis desalination proving plant in a commercial environment in Gibraltar. This is an important step and gives us the opportunity to demonstrate the significant advantages of our desalination technology, including lower energy, capital and operational costs and higher output.

We continue to monitor other water-related technology, with a particular focus on areas complementary to our existing products. As a result in September we made an investment in Stonybrook Purification, a company that is developing a new generation of membrane technology.

Ongoing investment in intellectual property has resulted in a recent patent grant approval for hydro-osmotic power, which generates power by mixing water with different levels of salinity. This is a natural extension of our work in desalination and represents a potentially important new revenue stream.

To support the roll out of our technologies we have continued to build a strong management team. We have made a range of impressive appointments in all key areas, with particular focus on sales and technical support. We are delighted to continue to attract high calibre staff who are well respected in the water and desalination sectors. I would like to take this opportunity to thank all of our staff who have helped to ensure that the first period as a quoted company has been such a success.

We expect that the high level of interest in our ground-breaking technologies will continue, and that the foundations and key relationships we have put in place will grow into successful long-term partnerships. The board looks forward to continuing this positive growth in 2008.

Business review

Introduction

The group has continued to grow following our admission to AIM on 12th June 2007. Based in new offices, with our key executive team of technical and business development professionals, we are confident that we have solid foundations from which to rapidly grow our business.

Market

Availability of fresh water and the treatment of wastewater remain at the forefront of the environmental agenda. The serious issues facing the developed world are now being recognised and the importance of sustainable solutions to these issues is increasingly urgent.

The company is experiencing continuing interest in its technology offering within its target markets. We believe our technology provides significant benefits over current technology. We are continuing to invest in developing further applications for our core manipulated osmosis technology to ensure we retain our technological advantage.

We have seen significant market interest from developers for the implementation of all our technology offerings on a single site.

Gibraltar

The company has announced the first contract for a manipulated osmosis desalination plant in a commercial environment. The proving plant will be located next to the existing desalination plant in Gibraltar and will use the same feedwater, producing 100m³/day of fresh water.

This is an important project for us and will enable us to illustrate the efficiency of our technology against traditional desalination methods. This showcase has attracted significant interest and will be an important part of our marketing strategy.

Commercial progress

During the year the company made a number of investments in technology. The initial investments in Poseidon Water, Cymtox and Surrey Aquatechnology were completed prior to the AIM admission.

On completion of the AIM listing, Modern Water acquired the balance of Surrey Aquatechnology shares to take the company to 100% ownership.

In November 2007, Modern Water purchased an additional 20% of Cymtox to take the shareholding to 37%. Cymtox is continuing to make significant progress in the development of its commercial product.

In line with our strategy to invest in new complementary technologies, in September 2007 the company made an investment in Stonybrook Purification. Stonybrook, a spinout from Stonybrook University, is developing a membrane platform that enables water treatment systems to process more water to a higher standard, faster and at a lower cost.

Technical developments

The company continues to sponsor research on further applications for our osmotic technology, led by Professor Sharif and his team at the University of Surrey. This work has resulted in a number of new patent applications.

One area of successful research has been in the use of manipulated osmosis for generating power. This will allow

power to be generated from the brine output of existing desalination plants. In the future this will allow power to be generated where there are fresh and sea water resources. Development of this technology is continuing and we are reviewing suitable locations for a large scale proving plant.

Intellectual property

Good progress has been achieved in securing the patents for the company's own technology.

The osmotic energy patent has been granted by the European Patent Office. The company has also received other individual country patent approvals for the manipulated osmosis process, including the sole right to use the technology in South Africa.

In addition, as part of Modern Water's drive to gain access to leading research, the company has agreed to join the Questor Group, which provides Modern Water with valuable links to Queens University Belfast, Dublin City University and Stevens Institute of Technology. Other members of the Questor Group include BP, Shell and Coca-Cola.

People and premises

In terms of headcount, the company is growing rapidly. Appointments have focused on technical and business development professionals, reflecting our increasing focus on the roll out and commercialisation of our technologies, attracting impressively high calibre people. Recruitment is ongoing as the business continues to grow, and our key executive team is now in place to drive the company forward.

Following the completion of our IPO, the company finalised the development of its stand alone IT and accounting systems, and moved to its current offices in Guildford.

Corporate Social Responsibility

The company is committed to the improvement and sustainability of the environment in which we operate. As a team, we are aware of our responsibility to conduct business and develop the company with a focus on environmental accountability. As the company grows, our intention is to place increased emphasis on our corporate social responsibility for the long term benefit of the planet. To this end, we are working towards ensuring that all the paper we print on is from sustainable sources. The inks used in our annual report are vegetable-based and we recycle all waste paper and card at our UK head office.

Lack of fresh water availability is becoming an increasingly pressing threat. Our range of technologies provide environmentally sound solutions to address this global issue. The technology we have developed for osmotic power generation is renewable and complements other renewable energy sources, such as solar and wind. The process allows for sustainable desalination whilst significantly reducing energy consumption. Our technology greatly impacts upon the reduction of long term damage to the planet caused by the use of fossil fuels. Our application of renewable energy in the treatment of water for industrial and domestic use will ensure this process is both sustainable and energy efficient.

Risks and uncertainties

The risks inherent in the operation of the company are well understood and control measures have been established to ensure that risks are adequately controlled both in terms of frequency and consequences. Risks are reviewed by the board on a regular basis. Treasury risks are described in more detail in the financial review. Other risks reviewed include business controls, management structure and recruitment programmes,

corporate and capital structure and the security of company assets such as intellectual property and patents.

Financial review

Summary

The financial position of the company is strong, having raised £30 million at IPO. At the year-end, cash balances were in excess of £29 million after funding the acquisition of two subsidiaries, two further investments and the infrastructure to support business development.

Accounting policies

The major accounting policies to note are those that deal with intangible assets and share based payments. The company has adopted IFRS and as such is required to value intangible assets acquired as part of a business combination. The resulting appraisal values the group's intangible assets at over £13 million. The company is also required to place a value on share-based payments. This amounted to a non-cash charge on the consolidated group income statement of £1.3 million out of a total loss of £1.7 million.

Capital structure

The company is entirely equity funded which is appropriate during the current pre-revenue, development phase. As the company develops income generating investments the capital structure will be reassessed on a project by project basis.

Treasury risk and policy

The company is subject to the following risks:

- Risks associated with variable interest rates.

- Credit risks associated with having cash on deposit.
- The risk of not having cash on deposit available at short notice.

The company has adopted a low risk approach to treasury management appropriate to manage all the above risks. Cash balances are invested in term deposit accounts, with maturity dates to suit projected liquidity requirements. A variety of institutions are used in consultation with the company's financial advisers.

Cash flows

The major cash inflow was the raising of total capital of £32 million comprising £30 million from the IPO and the remainder from the initial investors. Cash out includes transaction costs from the above (£1.6 million) and operating costs (£1.4 million), the majority of which relate to the rapid growth of the company. Cash investments totalling £350,000 have been made in four companies.

Conclusion

It has been an exciting and challenging period in the development of Modern Water. The foundations are now in place to allow the company to continue its rapid growth.

Simon Humphrey

Chief Executive

29 February 2008

Group income statement

period ended 31 December 2007

	£000
Administrative costs	(2,719)
Operating loss	(2,719)
Net finance income	1,020
Share of loss of associates	(50)
Loss on ordinary activities before taxation	(1,749)
Tax on loss on ordinary activities	16
Loss for the period	(1,733)
Attributable to:	
Equity holders of the company	(1,632)
Minority interest	(101)
	(1,733)
Loss per share for the period (attributable to equity holders of the company)	
Basic loss per share	4.6p
Diluted loss per share	4.5p

Group statement of changes in equity

period ended 31 December 2007

	Called up share capital	Share premium account	Merger reserve	Retained earnings	Minority interest	Total equity
Group	£000	£000	£000	£000	£000	£000
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 2007

	Group £000
Assets	
Non-current assets	
Property, plant and equipment	409
Intangible assets	13,772
Investments	257
	14,438
Current assets	
Trade and other receivables	688
Cash and cash equivalents	29,059
	29,747
Total assets	44,185
Equity and liabilities	
Equity	
Called up share capital	147
Share premium account	30,532
Merger reserve	12,782
Retained earnings	(380)
	43,081
Minority interest	173
Total equity	43,254
Liabilities	
Current liabilities	
Trade and other payables	472
Borrowings	32
	504
Non-current liabilities	
Deferred tax liability	427
Total liabilities	931
Total equity and liabilities	44,185

Group cash flow statement

period ended 31 December 2007

	Group £000
Cash flows from operating activities	
Cash used in operations	(1,270)
Net cash flows used in operating activities	(1,270)
Cash flows from investing activities	
Purchase of property, plant, equipment	(433)
Purchase of patents and development costs	(163)
Acquisition of subsidiaries, net of cash acquired	(110)
Acquisition of associates	(167)
Acquisition of other investments	(90)
Net cash flows used in investing activities	(963)
Cash flows from financing activities	
Proceeds from issue of shares	32,253
Transaction costs of issuing shares	(1,601)
Proceeds from borrowings	15
Repayment of borrowings	(8)
Interest received	633
Net cash flows from financing activities	31,292
Net increase in cash and cash equivalents	29,059
Cash and cash equivalents at 11 October 2006	-
Cash and cash equivalents at 31 December 2007	29,059

1. Basis of preparation

The board of directors approved these preliminary audited results on 29 February 2008. The financial information set out above is abridged and does not constitute the company's statutory financial statements for the period from 11 October 2006 to 31 December 2007. Statutory financial statements for the year ended 31 December 2007 have been reported on by the company's auditors. The report for the year ended 31 December 2007 was unqualified. These financial statements are the first prepared by the company and therefore no comparatives are disclosed.

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 costs 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. There have been no changes in accounting policies from the condensed consolidated interim financial information for the period ended 30 June 2007.

2. Operating loss

Operating loss is stated after charging:

	2007 £000
Employee benefits – share based	820
Other share based payments	432
Total share based payments	1,252
Wages and salaries	532
Amortisation of intangible assets	70
Depreciation	26
Minimum lease payments recognised as an operating lease expense	63
Auditor's remuneration	69

3. Intangible assets

Group	Goodwill £000	Patent costs £000	Development costs £000	Research and development acquired as part of a business combination £000	Total £000
<i>Cost</i>					
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
<i>Accumulated amortisation and impairment</i>					
At 11 October 2006	-	-	-	-	-
Acquisition of subsidiaries	-	9	-	38	47
Amortisation	-	13	3	57	73
At 31 December 2007	-	22	3	95	120
<i>Net carrying amount</i>					
At 31 December 2007	12,042	151	54	1,525	13,772

The acquisitions of Surrey Aquatechnology Limited and Poseidon Water Limited gave rise to the recognition of goodwill and intangible assets.

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 desalination 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 period. On 14 December 2006 the group acquired 51% of the share capital of Poseidon Water Limited including goodwill of £140,000 for a cash consideration of £425,000. On 30 November 2006 the group acquired 30% of the share capital of Surrey Aquatechnology Limited ("SAL") including goodwill of £67,000 for a cash consideration of £535,000. On 12 June 2007 the group acquired the remaining 70% of the share capital of SAL including goodwill of £11,835,000 in a share for share exchange with a fair value consideration of £12,809,000 (10,763,600 Modern Water plc shares).

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 2008 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 2008 and will also be available on the company's website at www.modernwater.co.uk.