9 September 2009

Modern Water plc, the owner of leading water technologies, announces Interim Results for the six-month period ended 30 June 2009

Highlights

* Gibraltar proving plant demonstrates success of our desalination technology
* Oman desalination plant in final stages of commissioning
* Cooling tower proving plant design completed; potential sites being considered
* First sales orders secured for Cymtox; stake increased to 76%
* Strong cash position with £25.3 million in hand at 30 June 2009

Commenting on the result, Modern Water Executive Chairman Neil McDougall said:

"Modern Water made a number of breakthroughs in the first half of 2009, with significant momentum built up across our portfolio. Our Gibraltar proving plant began supplying water into the local system in May and this plant continues to provide an excellent platform on which to demonstrate the benefits of our desalination technology. This is a major milestone for the company and for the multi-billion dollar desalination industry as a whole. In the Middle East, our second plant is in the final stages of commissioning at Al-Khaluf in Oman. We have already received significant interest in our technology from the Middle East and the Al-Khaluf plant will act as an important showcase for us in this fast-growing market.

"Our success hasn't been confined to desalination. We are currently evaluating a number of locations for the first proving plant to use our manipulated osmosis technology within cooling towers. This exciting technology has the potential to improve both the cost efficiency and the environmental performance of cooling towers, typically associated with power stations and oil refineries. In addition, we have also made the first sales of our water toxicity monitoring technology, Cymtox, in China.

"While we continue to take significant steps forward across the breadth of our business, our financial position remains strong, with £25.3 million of net cash in hand. The business is well positioned to move ahead and we look forward to delivering further progress in the coming months."

For further information:

Modern Water plc Neil McDougall, Executive Chairman www.modernwater.co.uk	01483 696 011
HeadLand Consultancy Dudley White or Tom Gough	020 7367 5226 or 5228
KBC Peel Hunt Ltd, Nominated Adviser and Broker Jonathan Marren or Oliver Stratton	020 7418 8900

Report to shareholders

I am delighted to report on a very successful half year for Modern Water. In a short period of time we have made a number of significant breakthroughs across a range of our technologies.

The world's first Manipulated Osmosis Desalination (MOD) proving plant located in Gibraltar began supplying water directly into the local potable water distribution system earlier this year. The water being produced has been quality tested by the client and verified by a third-party expert for approval to supply the public. The plant confirmed that the technology significantly reduces energy use, chemical consumption and has a range of additional benefits including substantially lower levels of boron.

The World Health Organisation has recommended a maximum concentration of boron of 0.5mg/l due to its toxic effects. Traditional sea water reverse osmosis does not achieve this level without additional costs. We have now proven in practical terms that our transformational desalination technology works successfully.

This is a major milestone for the company and for the multi-billion dollar desalination industry as a whole.

In addition to the Gibraltar plant, we have also been building a second larger plant to be located in Oman. I am pleased to be able to report that the plant was delivered to its location at Al-Khaluf in Oman at the end of July and is currently in the final stages of being commissioned. The Al-Khaluf project faces extremely challenging conditions, and has been installed alongside an existing desalination plant in order to further demonstrate the enhanced benefits of our technology compared with traditional methods. This plant will act as a showcase for our MOD technology in the Middle East, where annual capital and operating expenditure on water and wastewater across the region is expected to rise from $31 billion in 2009 to $52.3 billion in 2016*, confirming its status as the largest market in the world for desalination technology. (*Water Market Middle East 2010, GWI.)

Our patented platform MOD technology is not limited to the desalination market and can be deployed to great advantage across a number of industries and applications. An example of this is the cooling tower sector, and we have completed the design of the world's first MOD cooling tower proving plant. It is currently being fabricated and we have identified a number of potential sites. The technology works by using water from non-potable local sources to create a closed loop system that reduces blowdown, chemical dosing and water consumption. It also improves cost efficiency and has a positive impact on the environment by using less energy and reducing waste and chemical discharges.

We have now secured the first orders for our Cymtox CTM™ Continuous Toxicity Monitoring unit in China. It is the only online water toxicity monitor available on the market, and achieves real-time results by constantly monitoring for the presence of water-borne toxins and immediately warning of suspicious changes. There are many applications for this technology including drinking water intake and distribution, water supplies to high security installations, and monitoring industrial discharges. In order to maximise Modern Water's benefit from the Cymtox technology, we have increased our stake in Cymtox Ltd to 76% and we look forward to continued growth in sales from this element of our portfolio.

The current economic climate continues to challenge companies in all industries and therefore we are mindful of managing our financial resources carefully. Our financial position remains strong with £25.3 million of net cash and cash equivalents as at 30 June 2009 (30 June 2008: £28.7 million).

In summary, the first half of 2009 has seen Modern Water achieve a number of major milestones. It has been a period of significant progress with increasing opportunities to deploy our portfolio of world-leading technologies. None of these exciting achievements could have come to fruition without the expertise of the Modern Water team. On behalf of myself and the board, I would like to thank each member of staff for their continued hard work and dedication.

Neil McDougall
Executive Chairman
9 September 2009

Group statement of comprehensive income (unaudited)

For the six month period ended 30 June 2009

	Note	**6 months ended 30 June 2009 £'000**	6 months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Administrative expenses	6	**(2,500)**	(1,962)	(4,110)
Operating loss		**(2,500)**	(1,962)	(4,110)
Finance income		**524**	849	1,722
Finance costs		**(23)**	—	—
Share of loss of joint venture	9	**(61)**	—	(9)
Share of loss of associate		—	(35)	(35)
Loss on ordinary activities before income tax		**(2,060)**	(1,148)	(2,432)
Income tax expense	8	**15**	13	27
Loss and total comprehensive income for the period		**(2,045)**	(1,135)	(2,405)
Loss and total comprehensive income attributable to:				
Equity shareholders of the company		**(2,012)**	(1,046)	(2,176)
Minority interest		**(33)**	(89)	(229)
		(2,045)	(1,135)	(2,405)
All results derive from continuing operations.				
Loss per share attributable to the equity holders of the company				
Basic loss per share	11	**3.4p**	1.8p	3.7p
Diluted loss per share	11	**3.4p**	1.7p	3.7p

The notes on pages 8 to 11 form an integral part of this condensed consolidated interim financial information

Group statement of changes in equity (unaudited)

For the six month period ended 30 June 2009

	Note	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Minority interest £'000	Total equity £'000
Balance at 1 January 2008		147	30,532	12,782	(380)	173	43,254
Loss and total comprehensive income for the period ended 30 June 2008		—	—	—	(1,046)	(89)	(1,135)
Acquisition of subsidiary		—	—	—	—	90	90
Share-based payment schemes	10	—	—	—	302	—	302
		—	—	—	302	90	392
Balance at 30 June 2008		147	30,532	12,782	(1,124)	174	42,511
Balance at 1 January 2009		147	30,532	12,782	(2,105)	34	41,390
Loss and total comprehensive income for the period ended 30 June 2009		—	—	—	(2,012)	(33)	(2,045)
Transaction with minority interest	5	—	—	—	—	83	83
Share-based payment schemes	10	—	—	—	132	—	132
		—	—	—	132	83	215
Balance at 30 June 2009		**147**	**30,532**	**12,782**	**(3,985)**	**84**	**39,560**

The notes on pages 8 to 11 form an integral part of this condensed consolidated interim financial information

Group statement of financial position (unaudited)

As at 30 June 2009

	Note	**30 June 2009 £'000**	30 June 2008 £'000	31 December 2008 £'000
Assets				
Non-current assets				
Property, plant and equipment	9	**1,029**	506	779
Intangible assets	9	**14,182**	14,176	14,135
Investments	9	**420**	90	481
Total non-current assets		**15,631**	14,772	15,395
Current assets				
Trade and other receivables		**327**	357	518
Cash and cash equivalents		**25,325**	28,719	26,855
Total current assets		**25,652**	29,076	27,373
Total assets		**41,283**	43,848	42,768
Equity and liabilities				
Equity				
Share capital		**147**	147	147
Share premium account		**30,532**	30,532	30,532
Merger reserve		**12,782**	12,782	12,782
Retained earnings		**(3,985)**	(1,124)	(2,105)
		39,476	42,337	41,356
Minority interest		**84**	174	34
Total equity		**39,560**	42,511	41,390
Non-current liabilities				
Deferred income tax liabilities	8	**404**	433	419
Total non-current liabilities		**404**	433	419
Current liabilities				
Trade and other payables		**1,315**	879	951
Borrowings		**4**	25	8
Total current liabilities		**1,319**	904	959
Total liabilities		**1,723**	1,337	1,378
Total equity and liabilities		**41,283**	43,848	42,768

The notes on pages 8 to 11 form an integral part of this condensed consolidated interim financial information

Group statement of cash flows (unaudited)

For the six month period ended 30 June 2009

	Note	**6 months ended 30 June 2009 £'000**	6 months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Cash flows from operating activities				
Cash used in operations	7	**(1,897)**	(1,215)	(3,007)
Net cash flows used in operating activities		**(1,897)**	(1,215)	(3,007)
Cash flows from investing activities				
Purchase of property, plant and equipment	9	**(316)**	(138)	(460)
Purchase of patents and development costs	9	**(52)**	(111)	(149)
Acquisition of subsidiaries, net of cash acquired		**—**	66	66
Acquisition of joint venture		**—**	—	(400)
Interest received		**762**	1,063	1,747
Net cash flows from investing activities		**394**	880	804
Cash flows from financing activities				
Purchase of own shares		**—**	—	(35)
Repayments of borrowings		**(4)**	(5)	(24)
Net cash flows used in financing activities		**(4)**	(5)	(59)
Net decrease in cash and cash equivalents		**(1,507)**	(340)	(2,262)
Cash and cash equivalents less bank overdraft at start of period		**26,855**	29,059	29,059
Exchange (losses)/gains on bank balances		**(23)**	—	58
Cash and cash equivalents and bank overdrafts at end of period		**25,325**	28,719	26,855

The notes on pages 8 to 11 form an integral part of this condensed consolidated interim financial information

Notes (unaudited)

For the six month period ended 30 June 2009

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, part of the London Stock Exchange.
This condensed consolidated interim financial information was approved for issue on 8 September 2009.
These interim financial results are unaudited and do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985 (Section 438 of the Companies Act 2006). Statutory accounts for the 12 month period ended 31 December 2008 were approved by the board of directors on 11 March 2009 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).

2 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 2009 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.

3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008.

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

(a) Standards, amendments and interpretations to existing standards effective in 2009

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009:

- IAS 1 (Revised) 'Presentation of financial statements'. This has resulted in some changes to terminology, including revised titles, for presentation and disclosure of assets, liabilities, income and expenses in the financial statements. The Group has elected to present one performance statement (the statement of comprehensive income); and
- IFRS 8,'Operating segments'. Effective for periods commencing 1 January 2009. This requires a 'management reporting' approach to segmental analysis and aligns reporting with requirements of US standard SFSA 131.

(b) Standards, amendments and interpretations to existing standards effective in 2009 but not relevant for the group's operations

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning on 1 January 2009, but are not currently relevant for the Group:

- IFRS 1 (Amendment) 'First time adoption of IFRS and IAS 27 Consolidated and separate financial statements';
- IFRS 2 (Amendment) 'Share based payment'. Restricts vesting conditions to service and performance conditions alone;
- IFRIC 13 'Customer loyalty programmes';
- IFRIC 15 'Agreements for the construction of real estate';
- IFRIC 16 'Hedges of a net investment in a foreign operation'; and

- IAS 23 (2007) ‘Borrowing costs’.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- IFRS 3 (Revision) Business Combinations and consequential amendments to IAS 27 ‘Consolidated and separate financial statements’, IAS 28 ‘Investments in associates’ and IAS 31 ‘Interests in joint ventures’. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. Changes to measurement of the fair value of payments made to acquire a business and the goodwill arising. Transaction costs will be expensed. The effect of all transactions with non-controlling interests are recorded in equity if there is no change in control and these transactions will no longer result in goodwill gains and losses.
- IFRIC 17 ‘Distributions of non-cash assets to owners’, effective for annual reporting periods on or after 1 July 2009.
- IFRIC 18 ‘Transfers of assets from customers’, effective for annual reporting periods on or after 1 July 2009.

4 Segment information

The chief operating decision-maker is deemed to be the Board, for whom monthly financial information is provided in consolidated group format. At the group’s current stage of development the majority of the costs (business development, technical, legal, marketing, finance, facilities and directors expenditure) are managed and reported centrally. As the commercial activities of the group develop, this financial information is expected to evolve.

5 Transaction with a minority interest

The Group owned 53% of the share capital of Cymtox Limited (‘Cymtox’) as at 1 January 2009. The Group fully consolidated Cymtox using the acquisition method of accounting for the year ended 31 December 2008.

The Group invested £600,000 cash for 195,652 new ordinary shares issued by Cymtox on 27 March 2009. The Group’s shareholding correspondingly increased from 53% to 76%. The minority interest in Cymtox consequently reduced from 47% to 24%.

As this was a transaction with a minority interest a fair value exercise was not carried out. The Group has elected to use the Parent Company Method to account for the transaction.

Goodwill from the transaction was calculated as £83,000, being the difference between the £600,000 consideration paid and the £517,000 increase in carrying value of the group’s share of net assets (increase from £257,000 of net liabilities to 76% of £342,000 net assets).

6 Operating loss

This is stated after charging:

	Note	**6 months ended 30 June 2009 £’000**	6 months ended 30 June 2008 £’000	Year ended 31 December 2008 £’000
Share-based payments	10	**132**	302	486
Wages and salaries		**814**	888	1,587
Social security costs		**83**	58	147
Pension costs		**43**	24	68
Other employee benefits		**17**	15	29
Depreciation of tangible fixed assets	9	**66**	41	90
Amortisation of intangible assets	9	**88**	76	155
Minimum lease payments recognised as an operating lease expense		**65**	74	128
Research and development		**161**	120	268

In addition to the above costs for permanent staff, the Group utilises the services of contract and agency staff as circumstances require.

7 Net cash flows from operating activities

	Note	**6 months ended 30 June 2009 £'000**	6 months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Operating loss		**(2,500)**	(1,962)	(4,110)
Adjustments for:				
Depreciation of property, plant and equipment	9	**66**	41	90
Amortisation of intangible assets	9	**88**	76	155
Equity-settled share-based payments	10	**132**	302	486
Movements in working capital:				
(Increase)/decrease in trade and other receivables		**(47)**	70	87
Increase in trade and other payables		**364**	258	285
Cash used in operations		**(1,897)**	(1,215)	(3,007)

8 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 £404,000 at 30 June 2009 (2008: £433,000) arises from taxable temporary differences on intangibles recognised on business combinations and is expected to unwind over the useful economic life of these assets. £15,000 has been credited to the Statement of Comprehensive Income to 30 June 2009 (2008: £13,000).

9 Capital expenditure

	Note	Property, plant and equipment £'000	Intangible assets £'000	Investments £'000	Total £'000
Opening net book amount at 1 January 2009		779	14,135	481	15,395
Transaction with minority interest	5	—	83	—	83
Additions		316	52	—	368
Depreciation/amortisation		(66)	(88)	—	(154)
Share of loss of joint venture		—	—	(61)	(61)
Closing net book amount at 30 June 2009		**1,029**	**14,182**	**420**	**15,631**

10 Equity-settled share-based payment plans

	6 months ended 30 June 2009 £'000	6 months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Incentive plan (option scheme)	**124**	170	300
Management share incentive scheme	—	63	116
Employee bonus scheme	**8**	69	70
Fair value of employee share-based remuneration	**132**	302	486

The company operates three share-based payment schemes. The Modern Water Incentive Plan (MWIP), Management Share Incentive Scheme (MSIS) and the Modern Water Employee Bonus Plan (MWEBP). There has been no activity on either the MSIS or MWEBP schemes since the 2008 Annual Report. Activity on the MWIP scheme is detailed below.

Modern Water Incentive Plan (MWIP)

Under this scheme share options are granted to senior management. The exercise price is equal to the market price on the date of the grant. The options may be exercised if certain TSR performance criteria are met. If the increase is not met the options lapse.

Options over 50,000 shares were granted in the period to one employee on 21 April 2009. Additionally options over 560,877 shares lapsed due to TSR performance criteria not being achieved.

The fair value of the equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

The directors' and employees' holdings of options over ordinary shares issued under MWIP were as follows:

				Number of options				
Date of grant	Earliest exercise date	Expiry date	Exercise price	1 January 2009	Granted in period	Exercised in period	Lapsed in period	**30 June 2009**
Neil McDougall*								
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	12.06.09	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	500,000	—	—	—	**500,000**
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**
21.04.09***	21.04.12	21.04.19	35.0p	—	50,000	—	—	**50,000**
Total Options				2,021,754	50,000	—	560,877	**1,510,877**
WAEP				110p	35p		119p	**104p**

TSR performance criteria required on the earliest exercise date. If this is not met the options lapse.
* One third of the options vested in thirds 12, 24 and 36 months from AIM admission. Each tranche vests subject to total shareholder return being at least equal to 10% for the 12 months preceding the relevant tranche vesting date.
** Options will vest subject to total shareholder return being at least equal to 30% for the 3 years between grant and vesting.
*** Options will vest subject to total shareholder return being at least equal to 200% for the 3 years between grant and vesting.

11 Earnings per share

(a) Basic

Basic earnings 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 year.

	6 months ended 30 June 2009 £'000	6 months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Loss attributable to equity holders of the company	**2,012**	1,046	2,176
Weighted average number of ordinary shares in issue (thousands)	**58,863**	58,863	58,863
Basic loss per share	**3.34p**	1.78p	3.70p

(b) Diluted

The share options in issue are potentially dilutive, dependant on performance criteria being met on the earliest exercise date. None of the options in issue had performance criteria that were met at the end of the reporting period. Therefore the options in issue are anti-dilutive and the diluted loss per share is equal to the basic loss per share.