MODERNWATER

14 March 2012

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

Modern Water (AIM:MWG), the owner of world-leading technologies for the production of fresh water and monitoring of water quality, announces Full-Year Results for the 12 months ended 31 December 2011

Highlights

Operational

- Major contract win for world’s first commercial desalination plant to use forward osmosis (FO)
- Doubling of sales of monitoring equipment from H1 to H2, with annual sales exceeding £1m for the first time
- Sales to China exceeded £500k providing strong base for future growth
- Successful acquisition and integration of Cogent and Microtox monitoring businesses, leading to lower unit costs and increased cross-selling
- Continued successful investment in patents further increasing technology protection
- Economic, environmental and social factors continue to drive demand for Modern Water technologies

Financial

- Gross revenue £1.24m (2010 £27k)
- Gross profit margin of 37%
- Strong financial position – no debt and cash of £11.3 million

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

“Appetite for Modern Water's technologies continued to grow in 2011. Not only was there commercial recognition for our FO technology by way of a £500,000 contract win in the Middle East, but we also increased sales in our Monitoring division which saw revenues break through the £1m mark.

“The commercial contract in Oman plays to the strengths of our desalination technology which is able to operate effectively in some of the worst conditions faced by the industry. It also offers considerable economic and environmental benefits compared with existing techniques. The new plant is on track for installation this summer and we are confident that it will pave the way for further contract wins in the future.

“We transformed our Monitoring division in 2011. This began with the purchase of Cogent Environmental in February and was followed by the acquisition of key water monitoring technologies from Strategic Diagnostics in December, which included leading toxicity monitoring brand Microtox. This division now includes a suite of complementary technologies that offer a major increase in customer choice on a global level. Modern Water expects to benefit from the division's steady revenue stream and we are confident of potential sales growth, particularly in China, where spending in the next five years on urban waste water infrastructure is expected to reach $60bn.

"Expertise in water technologies and dedication to sourcing, developing and supplying world-leading applications continues to drive our business. We significantly increased our patents during the year and are always looking to protect and enhance our technologies.

"Looking to 2012, our efforts are twin-tracked. We are focussed on the integration of our Monitoring businesses and increasing sales here at every opportunity. At the same time, we are driven by the prospects for our membrane business as we set our sights on this multi-billion dollar market. All of these efforts are based on our objective to grow the business and deliver value to all of our shareholders."

For further information

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Notes to editors

Modern Water owns, installs and operates world-leading membrane technology 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 has been proven to significantly reduce costs, lower energy consumption and lessen environmental impact in a variety of industries. With a sales presence in over 60 countries, the Group's Monitoring Division includes the world's only real-time continuous toxicity monitor and trace metal analysers for monitoring the quality of drinking water.

www.modernwater.co.uk

CHAIRMAN'S STATEMENT

Neil McDougall

I am delighted to report that 2011 saw the achievement of two major goals by Modern Water. First, we won a strategically significant contract to build the world's first, commercial Forward Osmosis (FO) desalination plant. This contract win is opening up further exciting opportunities for our pioneering technology. Secondly, gross revenue exceeded £1 million for the first time, with sales in the second half of the year doubling those in the first. We expect further, strong growth in 2012.

World's First Commercial Forward Osmosis Plant

In June 2011 we were awarded a contract to build the world's first, fully commercial desalination plant in Oman using our world-leading FO technology. The contract award confirms Modern Water's position as a global leader in FO desalination and recognises the commercial advantages of our technology. We have now moved in to the delivery phase of this project. Construction is proceeding on target and we expect the plant to be fully operational during the summer of 2012, after which the revenues will start to be reflected in our 2012 results.

Modern Water's FO desalination technology reduces energy consumption by up to 30% compared with conventional reverse osmosis. It is also far more robust and produces better quality water. As with all groundbreaking technology, market recognition can take time. This applies particularly to the Middle East, parts of which are undergoing a period of political uncertainty. Following our contract win last year, however, I am pleased to report that we are actively pursuing several major projects in the area and we go into 2012 well placed to win further desalination contracts globally.

Further Business Development

The newly formed Monitoring division has undergone a major transformation during 2011 with sales exceeding £1million for the year.

In February we acquired Cogent Environmental Limited whose online, portable products are used for monitoring trace metals in over 20 countries.

In December, Modern Water completed the acquisition of the water quality division of Strategic Diagnostics Inc. in the US. This acquisition includes Microtox, a leading brand in toxicity testing which uses the same bioluminescent technology as Modern Water's existing toxicity technology Cymtox.

The integration of our newly acquired technologies into Modern Water is leading to reductions in costs and presents excellent cross-selling opportunities. A particularly important country for us is China. Our strong sales growth there led in 2011 to our decision to appoint our first non-executive Chairman for China. We also expect to see strong sales in the US where Microtox is a recognised leader.

Overall the prospects for our monitoring business are extremely encouraging and we have some of the best technology in the world. Sales are accelerating and should continue to grow for many years to come.

Overview

Modern Water has made significant progress during 2011. We move in to 2012 well-placed to build our position within our chosen industries. In a climate of economic uncertainty, the Group remains financially strong with no debt and cash of £11.3 million. We see major growth opportunities and we remain determined to achieve further shareholder value as we move forward.

On behalf of the Board I would like to thank the growing team at Modern Water for its commitment as we look ahead to further success in 2012.

CEO's BUSINESS REVIEW

Simon Humphrey

With the strategy for proving our core technology complete, we now move into our strategy for growth.

Modern Water now operates as two distinct divisions that span our two main product groups: the Advanced Membrane Processes (AMP) division which includes our patented Forward Osmosis (FO) technology and the Monitoring Division which covers our instrumentation technology. These divisions are supported by the group functions of Engineering, Business Development, Finance, Legal and Marketing based at our head office in Guildford, UK.

The membrane and monitoring aspects of the business have continued to present us with unique opportunities for cross-selling and, during the course of 2011, we made a greater distinction between these two core divisions in order that we might provide our customers with even greater choice and deliver real value to our shareholders.

Advanced Membrane Processes

A Strategy for Growth
Our strategy for proving the technology has been threefold: to take our technology out of the laboratory and into the commercial world which we did at our site in Gibraltar, to prove that our FO desalination technology works in the most challenging environments which we did at Al Khaluf in Oman and to win a commercial project on the back of these proven successes, which we did in June 2011 at Al Najdah in Oman where we won a contract to build the world's first FO desalination plant for The Public Authority for Electricity and Water (PAEW) in Oman.

With the final phase of our technology development strategy complete, our strategy is now on rolling out our proven technology and winning new contracts. We have no fixed, preferred contractual structure and work with potential clients to assess the most appropriate form of contract for each individual opportunity. This can range from design and build contracts to green-field Build-Own-Operate-and-Transfer (BOOT) contracts and include retrofits as well as new build. Where it enhances our business offering, we use local partners, tapping in to local skills networks and building our skills base.

In addition, we are continuing to develop further applications for our patented, platform FO technology which form part of our increasing portfolio of patents.

Our Market
The stark reality of water scarcity in regions such as the Middle East provides Modern Water with an opportunity to provide long-term desalination solutions. We have demonstrated with our plant at Al Khaluf that we can successfully win and implement significant contracts; the plant at Al Khaluf continues to exceed all of our expectations and has been producing 100m^3 of water a day for public supply since November 2009.

Alongside the Middle East, the Group has identified China as a country where water scarcity continues to pose a real threat to economic growth. China makes up 21% of the world's population but has only 7% of the renewable water resources. Water scarcity has been cited as the single largest impediment to China's long-term success. In light of the opportunities for Modern Water and our continued and growing presence in China, we appointed our first Non-Executive Chairman of our China operations. Simon MacKinnon joined us in September 2011 and will be instrumental in introducing our desalination technology to China, as well as further strengthening sales of our water monitoring products.

Contract Award
Modern Water's contract to build the world's first commercial FO desalination plant in Oman was awarded in June with effect from 1 October. The plant at Al Najdah is currently being fabricated in Oman and completion of the construction phase of the project is planned for April 2012. The scale

of our operations continues to increase: the design capacity of the plant is 200 m3 per day, exactly double the capacity of our pilot plant at Al Khaluf.

Monitoring

A Strategy for Growth
Following the acquisitions in 2011 of Cogent Environmental and the water quality division of Strategic Diagnostics Inc. in the US, we now have a global network of distribution partners for water, wastewater and environmental monitoring.

With this acquisition we established Modern Water Inc. (MW Inc.) as a base for our business operations in the Americas.

In the coming year we will fully integrate MW Inc. into the Monitoring division and seek to acquire or licence additional products to sell through our distribution network. We will also continue to take full advantage of all of the opportunities for cross-selling of our products and will look to actively increase those opportunities during 2012.

The sensing and monitoring industry is continuing to move to the requirement for real time, online analysis. Using our links with universities and research institutes and the feedback from our customers, we are constantly reviewing opportunities to source new and innovative technology to increase our portfolio of innovative products. We will also continue to further develop our existing products in response to evolving industry and competitive requirements.

Our Market
During 2011 the Monitoring division sold equipment into over 60 countries and achieved sales of over £1m. Our most active customers were in China and the USA. We remain focussed on increasing sales in both these countries during 2012, whilst also redoubling our sales efforts in Europe and South East Asia.

Our Acquisitions
During 2011 we completed two acquisitions in the Monitoring division.

Cambridge-based Cogent Environmental was acquired in February 2011 for a consideration of £419,110 in cash and 642,571 newly issued shares in Modern Water plc. Cogent markets a range of on-line and hand held analysers for heavy metals and its OVA and PDV products are used in over 20 countries. Key applications for the products include: monitoring wastewater discharges to reduce environmental impact and reduce the risks of prosecution by exceeding consent limits, monitoring river water to immediately identify sources of heavy metal pollution, monitoring drinking water to protect from potential metal contamination and improving process control through real-time feedback in mining and metal processing industries.

In December 2011 we completed the acquisition of the assets and stock of the water quality division of Strategic Diagnostics Inc. for a cash consideration of US$4.5m. Amongst the assets we acquired was Microtox: the world leading brand in toxicity monitoring, as well as a range of other toxicity products including: DeltaTox, QuickChek, RaPID Assay, EnSys, EnviroGard and Polymer Detect. The business is based in New Castle Delaware, USA and operates through a newly incorporated wholly-owned USA subsidiary MW Inc.

Operational Review
The Monitoring division achieved sales of £1,194,000 in 2011. The main contribution was from the Cogent product line, with sales nearly doubling between the first and second half of 2011. Additionally we have consolidated one month of sales for MW Inc in 2011.
We enter 2012 with a strong order pipeline across the division. A total of 40 Cymtox units were shipped to China by our licensed distribution partner but only 20% of the revenue has been recognised with the balance due on final installation.

AguaCure

In July 2011 we increased our shareholding in AguaCure Ltd to 100% through the acquisition of the 46% shareholding held by others for a cash consideration of £25,000. AguaCure is now a wholly-owned subsidiary of Modern Water plc.

During the year we successfully completed two EU grant funded projects for the treatment of waste from dairy and metal finishing industries in Europe. We also identified an opportunity in space restricted applications for which the electrocoagulation product was redesigned and for which two new patents have been filed. The new design is to be deployed on a paid trial at a customer's site in March 2012.

Patent Progress

A fundamental part of the Group's strategy is to protect its proprietary technology through prudent use of the patenting system worldwide.

During 2011 we increased our patent portfolio with a further 24 patents granted in 14 countries.

As part of the acquisition of Strategic Diagnostics Inc's Water Quality Division ("Microtox"), we acquired a portfolio of USA and international patents for a range of methods and standards for water quality monitoring.

The Group now holds 89 granted patents and has 58 applications pending. Of the granted patents 33 were acquired as part of the Microtox transaction. The membrane patents consist of 53 granted patents across five main patent groups.

Resources

The Group currently employs 48 permanent staff and hires additional staff on a contract basis. Where possible, the Group utilises local expertise by employing people from the communities in which we operate.

Risks and uncertainties

The risks inherent in the operation of the Group are well understood by the Board of Directors and the management team. Principal risks and uncertainties are described in detail in the Directors' Report. Control measures have been established to ensure that these, and other, risks are adequately controlled both in terms of frequency and consequences. The internal control environment is described in the Corporate Governance Statement.

Financial review

Summary

The financial position of the Group is strong, with £11.3m cash in the bank and no debt at 31 December 2011 (2010: £19.3m cash). The Group generated revenue of £1.2m in 2011 (2010: £27,000). The Group's loss for the year was £4.5m (2010: £4.1m), as operating expenses exceeded gross profit. The loss increased on the prior year primarily due to £0.28m loss on re-measurement of AguaCure on acquisition as a subsidiary and £0.13m reduction in finance income, as cash deposits and yields have reduced.

Accounting policies

The Group financial statements have been prepared in accordance with EU Endorsed IFRS, IFRS Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The key accounting policies to note are those concerned with intangible assets and share based payments.

Capital structure

The Group is entirely equity funded which is appropriate during the current stage of development. As the Group develops, the capital structure will be reassessed on a project by project basis.

Treasury management

The Group has adopted a low risk approach to treasury management. Cash balances are invested in fixed interest term deposit accounts, with maturity dates to suit projected liquidity requirements. Credit risk is addressed by the Group's treasury policy (see note 3 to the accounts for further detail). Deposits are selected based on achieving the optimum balance of yield, security and liquidity.

Foreign exchange risk is primarily mitigated through natural hedging of receipts and payments (see note 3 to the accounts for further detail).

Cash flows

The Group cash outflow for the year was £8.0m (2010: £3.9m). Cash inflow from interest on term deposits was £0.4m (2010: £0.7m). Cash outflows comprised £0.1m plant and equipment (2010: £0.1m), £0.1m patents (2010: £0.1m), £3.1m net cash invested in subsidiaries and joint ventures (2010: £0.1m) and £5.0m operating costs and financing activities (2010: £4.1m). Cash outflow on operating costs increased due to increasing stock holding in Cogent to meet future sales demand and a reduction in the creditor balances.

GROUP STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2011

	Note	**2011 £000**	2010 £000
Revenue	2	**1,242**	27
Cost of sales		**(782)**	(2)
Gross profit	2	**460**	25
Administrative expenses	3	**(5,151)**	(4,489)
Other losses - net		**(242)**	—
Operating loss		**(4,933)**	(4,464)
Finance income		**356**	490
Share of loss of joint venture		**(28)**	(131)
Loss on ordinary activities before taxation		**(4,605)**	(4,105)
Taxation		**62**	40
Loss and total comprehensive loss for the year		**(4,543)**	(4,065)
Attributable to:			
Owners of the parent		**(4,543)**	(4,051)
Non-controlling interests		**—**	(14)
		(4,543)	(4,065)

Loss per share for the year (attributable to owners of the parent)		
Basic loss per share	**7.64p**	6.88p
Diluted loss per share	**7.64p**	6.88p

GROUP STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

	Note	2011 £000	2010 £000
Assets			
Non-current assets			
Property, plant and equipment		**787**	942
Intangible assets	4	**17,593**	14,366
Investments		**—**	215
		18,380	15,523
Current assets			
Inventories		**1,149**	20
Trade and other receivables		**976**	568
Cash and cash equivalents		**11,280**	19,252
		13,405	19,840
Total assets		**31,785**	35,363
Equity and liabilities			
Equity			
Ordinary shares		**149**	147
Share premium account		**30,532**	30,532
Merger reserve		**13,180**	12,782
(Accumulated losses)/Retained earnings		**(13,422)**	(9,133)
		30,439	34,328
Non-controlling interests		**126**	—
Total equity		**30,565**	34,328
Liabilities			
Non-current liabilities			
Deferred tax liabilities		**374**	350
Current liabilities			
Trade and other payables		**846**	685
		846	685
Total liabilities		**1,220**	1,035
Total equity and liabilities		**31,785**	35,363

GROUP STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2011

Group	Ordinary shares £000	Share premium account £000	Merger reserve £000	(Accumulated losses)/ Retained earnings £000	Total £000	Non-controlling interest £000	Total Equity £000
Balance as at 1 January 2010	**147**	**30,532**	**12,782**	**(5,394)**	**38,067**	**14**	**38,081**
Comprehensive loss							
Loss and total comprehensive loss for year	—	—	—	(4,051)	(4,051)	(14)	(4,065)
Total comprehensive loss	—	—	—	(4,051)	(4,051)	(14)	(4,065)
Transactions with owners							
Share-based payments	—	—	—	312	312	—	312
Total transactions with owners	—	—	—	312	312	—	312
Balance as at 1 January 2011	**147**	**30,532**	**12,782**	**(9,133)**	**34,328**	—	**34,328**
Comprehensive loss							
Loss and total comprehensive loss for the year	—	—	—	(4,543)	(4,543)	—	(4,543)
Total comprehensive loss	—	—	—	(4,543)	(4,543)	—	(4,543)
Transactions with owners							
Issue of shares related to business combination	2	—	398	—	400	—	400
Non-controlling interest arising on business combination	—	—	—	—	—	126	126
Share-based payments	—	—	—	254	254	—	254
Total transactions with owners	2	—	398	254	654	126	780
Balance as at 31 December 2011	**149**	**30,532**	**13,180**	**(13,422)**	**30,439**	**126**	**30,565**

GROUP STATEMENT OF CASH FLOWS
Year ended 31 December 2011

	2011	2010
	£000	£000
Cash flows from operating activities		
Cash used in operations	**(4,991)**	(4,185)
Net cash flows used in operating activities	**(4,991)**	(4,185)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(143)**	(122)
Proceeds from sale of property, plant and equipment	**23**	—
Purchase of patents and development costs	**(137)**	(134)
Acquisition of subsidiaries, net of cash acquired	**(3,128)**	—
Acquisition of joint venture	—	(100)
Interest received	**384**	669
Net cash flows (used in)/generated from investing activities	**(3,001)**	313
Cash flows from financing activities		
Treasury shares	—	—
Cash-settled share-based payments	—	(4)
Net cash flows used in financing activities	—	(4)
Net decrease in cash and cash equivalents	**(7,992)**	(3,876)
Cash and cash equivalents at the beginning of the year	**19,252**	23,123
Exchange gains on bank balances	**20**	5
Cash and cash equivalents at the end of the year	**11,280**	19,252

1. Authorisation and basis of preparation

The board of directors approved these results on 14 March 2012. The financial information set out above is abridged and does not constitute the Group's statutory financial statements for the year to 31 December 2011. Statutory financial statements for the year ended 31 December 2011 have been reported on by the Group's auditors. The report for the year ended 31 December 2011 was unqualified.

The principal accounting policies have been applied consistently throughout the year, unless otherwise stated, in the preparation of these financial statements. The financial statements of Modern Water plc have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, IFRS Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention

2. 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 below this in consolidated group format. For management reporting purposes the group is organised into two operating segments (i) membranes; and (ii) monitoring.
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.

Statement of Comprehensive Income	**2011**				2010			
	Membrane £'000	Monitoring £'000	Central £'000	Total £'000	Membrane £'000	Monitoring £'000	Central £'000	Total £'000
Revenue	**48**	**1,194**	**—**	**1,242**	—	27	—	27
Cost of sales	**(45)**	**(737)**	**—**	**(782)**	—	(2)	—	(2)
Gross profit	**3**	**457**	**—**	**460**	—	25	—	25
Admin expenses	**—**	**—**	**(5,151)**	**(5,151)**	—	—	(4,489)	(4,489)
Other losses - net	**—**	**—**	**(242)**	**(242)**	—	—	—	—
Operating loss	**3**	**457**	**(5,393)**	**(4,933)**	—	25	(4,489)	(4,489)
Finance income	**—**	**—**	**356**	**356**	—	—	490	490
Share of joint venture loss	**—**	**—**	**(28)**	**(28)**	—	—	(131)	(131)
Loss before taxation	**3**	**457**	**(5,065)**	**(4,605)**	—	25	(4,130)	(4,105)
Taxation	**—**	**—**	**62**	**62**	—	—	40	62
Loss and total comprehensive loss for the year	**3**	**457**	**(5,003)**	**(4,543)**	—	25	(4,090)	(4,065)

The Monitoring division recognised £37,000 revenue from royalties and £1,157,000 from sale of goods. The Membrane division recognised £46,000 from the sale of desalination equipment and £2,000 from sale of water.

3. Administrative expenses by nature

	2011 £000	2010 £000
Employee benefits expense	**1,859**	1,769
Share-based payments	**254**	316
Depreciation, amortisation and impairment charges	**547**	492
Operating lease payments	**257**	139
Research and development	**473**	366

Auditors' remuneration	**91**	167
Other administrative expenses	**1,670**	1,240
Total administrative expenses	**5,151**	4,489

4. Intangible assets

Group	Goodwill £000	Patent costs £000	Development costs £000	Research and Development, and patented technology acquired as part of a business combination £000	Customer contracts acquired as part of a business combination £000	**Total £000**
At 1 January 2010						
Cost	12,671	365	131	1,690	—	14,857
Accumulated amortisation	—	(63)	(87)	(295)	—	(445)
Net book amount	12,671	302	44	1,395	—	14,412
Year ended 31 December 2010						
Opening net book amount	12,671	302	44	1,395	—	14,412
Additions	—	134	—	—	—	134
Amortisation charge	—	(40)	(41)	(99)	—	(180)
Closing net book amount	12,671	396	3	1,296	—	14,366
At 31 December 2010						
Cost	12,671	499	131	1,690	—	14,991
Accumulated amortisation	—	(103)	(128)	(394)	—	(625)
Net book amount	12,671	396	3	1,296	—	14,366
Year ended 31 December 2011						
Opening net book amount	12,671	396	3	1,296	—	14,366
Acquisition of subsidiaries	763	6	—	2,317	180	3,266
Additions	—	137	—	—	—	137
Amortisation charge	—	(43)	(3)	(114)	(16)	(176)
Closing net book amount	**13,434**	**496**	—	**3,499**	**164**	**17,593**
At 31 December 2011						
Cost	13,434	642	131	4,007	180	18,394
Accumulated amortisation	—	(146)	(131)	(508)	(16)	(801)
Net book amount	**13,434**	**496**	—	**3,499**	**164**	**17,593**

5. 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 24 April 2012 at the offices of Modern Water plc, Bramley House, The Guildway, Old Portsmouth Road, Guildford GU3 1LR.

6. 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 2012 and will also be available on the Company's website at www.modernwater.co.uk.