13 September 2017

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

INTERIM RESULTS

Modern Water (AIM:MWG), the owner of leading technologies for water and wastewater treatment and the monitoring of water quality, announces half-year results for the 6 months ended 30 June 2017

Highlights

Operational

- First AMBC revenue from India
- First AquaPak™ revenue from Oman
- First FO revenue from China

Financial

- Group revenue increased 37% to £1.56m (H1 2016: £1.14m)
- Group gross profit increased 15% to £0.67m (H1 2016: £0.58m)
- Group overheads were reduced a further 4% to £2.08m (H1 2016: £2.18m) in line with management strategy
- £1.75m (£1.61m net) raised from issue of new shares
- Cash balance of £1.53m (H1 2016: £2.06m) and debt free

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

"I am pleased to report that Modern Water's strategy is continuing to build momentum, with Group revenue increasing 37% in the first-half of 2017, delivering a 15% improvement in Gross Profits. It is also pleasing to note that the recent successful fund raise achieved the Board's objectives and we are now able to make further investment in our growth and accelerate our work in developing new products, which are already taking shape in the USA.

The impressive performance of our All Membrane Brine Concentrator (AMBC) in the cleaning of process waste-water for an Indian-based textiles company was widely marketed and has encouragingly resulted in new enquiries from companies in a range of countries and industrial sectors. We are also beginning to see increasing market interest in our other membrane technologies, with sales of licences and products in China, India and Oman."

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Notes to editors

Modern Water owns, installs and operates broad based membrane systems using world-leading Forward Osmosis (FO) membrane technologies; supplies packaged seawater Reverse Osmosis (RO) desalination systems; supplies wastewater treatment solutions; and develops and supplies advanced systems for water monitoring. Its shares trade on the Alternative Investment Market of the London Stock Exchange.

Modern Water's patented Forward Osmosis (FO) technology's benefits include lower energy consumption and less environmental impact in a variety of industries. With a sales presence in almost 60 countries, the Group's Monitoring Division includes a leading real-time continuous toxicity monitor and trace metal analysers for monitoring the quality of drinking water.

www.modernwater.com

Chairman's Statement

I am pleased to report that Modern Water's strategy is continuing to build momentum, with Group revenue increasing 37% in the first-half of 2017, delivering a 15% improvement in Gross Profits. We continue to keep a close eye on our operating costs, where overheads were reduced by a further 4%. Overall, the operating loss for the period was reduced by £188k to £1.65m.

The impressive performance of our All Membrane Brine Concentrator (AMBC) in the cleaning process of waste-water for an Indian-based textiles company was widely marketed and has encouragingly resulted in new enquiries from companies in a range of countries and industrial sectors. We are also beginning to see increasing market interest in our other membrane technologies, with sales of licences and products in China, India and Oman.

The refocusing of our Monitoring Division continues to gather pace, with new appointments of a Vice President of Global Sales, and new sales managers located in China and UK & Ireland.

It is also pleasing to note that our successful fund raise achieved the Board's objectives and we are now able to make further investment in our growth and accelerate our work in developing new products, which are already taking shape in the USA. A total of 15.9m new shares were placed in May, which expanded our shareholder base and raised net proceeds of £1.612m.

I would like to take this opportunity to thank our stakeholders for their continued support of the business and of course our employees and advisers for their creativity, hard work and determination in driving Modern Water towards a position of robust and sustainable profitability.

Alan Wilson
Chairman
12 September 2017

Chief Executive's Statement

Membrane Division

- Revenue £0.30m (H1 2016: n/a)
- Gross margin 42% (H1 2016: n/a)

H1 2017 was a milestone period for our membrane division with first time revenues achieved for three separate products in three different geographic markets. It is important to note that our scope for each of these projects is complete and we have been paid in full.

We believe this progress demonstrates that the technologies we have developed are attractive in the geographies and industries we have targeted. As these installations begin to deliver the expected benefits to end customers we believe this will generate further commercial opportunities.

Our first All Membrane Brine Concentrator (AMBC) contract was completed for our Indian partner Advent Envirocare, which expects to have the full plant commissioned before the end of the year. This partnership with Advent continues to develop well and our pilot plant has now been redeployed for another field trial, this time by a multinational agrochemical company.

We have also completed our contract with Hangzhou Water Treatment Technology Development Center Co. Ltd in China, to provide design and engineering services for a seawater desalination plant using our proprietary Forward Osmosis (FO) technology.

During the period, we also delivered, installed and commissioned our first AquaPak™ desalination unit in Oman and are now providing consulting services for a follow-on project. We also have a significant pipeline of tenders awaiting decisions and expect to grow this product line over the next 12 to 18 months.

Our partnership with Bilfinger Deutchse Babcock has also progressed in the first half of 2017 and we are in final negotiations to deploy our pilot Multi Stage Flash (MSF) pre-treatment plant to a desalination facility in the Middle East.

In Gibraltar, the status of our joint venture with Northumbrian Water is unchanged from previous statements. We remain the Government's preferred bidder for its much needed wastewater project and continue to assist in the project's advancement, with little in the way of ongoing costs being incurred by us.

Monitoring Division

- Revenues increased by 11% to £1.26m (H1 2016: £1.14m)
- Gross margin decreased to 43% (H1 2016: 52%)
- Order book increased by 386% to £0.31m (H1 2016: £0.08m)

Equipment sales were a higher proportion of Monitoring revenue in H1 2017 than last year, which explains the decrease in Gross margin. Based on the sales mix so far in H2 and our order book, we expect the full year gross margin to be similar to last year.

The reorganisation of the division's sales and distribution channels continues apace, with the appointment of new sales personnel in the US, South America, China and the UK during the first half of 2017. China in particular is a key focus as we start to develop a permanent local sales presence for the first time. Significant investment has been made in product development and a new online trace metal monitor is due to be launched before the end of the year. It was also exciting to see our Microtox® technology certified by both the Mexican Authorities and Taiwanese Environmental Protection Agencies as the approved method for the determination of acute toxicity in waste water, fresh water, sea and brackish water.

Capital Raise

A £1.75m share placing (£1.61m net of costs) was completed at 11p in May 2017 and was supported by management, new institutional shareholders and high net worth individuals. This, together with the £500k receivables facility in place since December 2016, gives us the resources to reach cash flow breakeven without compromising our investment plans.

Cash at 30 June 2017 was £1.53m.

Outlook

The publicity accompanying our first AMBC sale has generated significant interest for this product in both India and in a number of other geographic and industrial markets. This initial success with the AMBC gives us confidence that our revised strategy of licensing our expertise to industrial partners is the correct one and we expect to announce further partnerships and contracts across the Membrane division before the year end.

Momentum is also building in our, now stand-alone, Monitoring business and again we expect further progress in the second half of 2017.

Following the capital raise, cash has become much less of a constraint, however our focus on driving efficiencies in our operations and managing costs will continue as core elements of our strategy.

Modern Water has an excellent range of technologies, offering important benefits and gaining traction in specifically targeted markets. The prospects for the business are exciting and we will continue to commercialise the technology we have created, without compromising future product development. We therefore look forward with more confidence than at any point in the past three years.

Simon Humphrey
Chief Executive Officer
12 September 2017

GROUP STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2017

	Note	**6 months ended 30 June 2017 £'000**	6 months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Revenue		**1,556**	1,135	3,629
Cost of sales		**(885)**	(552)	(1,764)
Gross profit		**671**	582	1,865
Administrative expenses		**(2,078)**	(2,175)	(4,414)
Other gains		**—**	—	—
Goodwill and intangibles impairment		**—**	—	—
Operating loss before interest, tax, depreciation & amortisation		**(1,407)**	(1,592)	(2,549)
Depreciation and amortisation		**(247)**	(249)	(502)
Operating loss		**(1,654)**	(1,842)	(3,051)
Finance income		**4**	127	514
Finance costs		**(142)**	—	(30)
Loss on ordinary activities before taxation		**(1,792)**	(1,715)	(2,567)
Taxation		**(16)**	253	465
Loss for the half year		**(1,808)**	(1,462)	(2,102)
Other comprehensive income				
Items may be subsequently reclassified to profit or loss				
Foreign currency translation differences on foreign operations		**91**	38	(76)
Total comprehensive loss for the half year		**(1,717)**	(1,424)	(2,178)
Loss attributable to:				
Owners of the parent		**(1,808)**	(1,462)	(2,102)
Non-controlling interests		**—**	—	—
		(1,808)	(1,462)	(2,102)
Total comprehensive loss attributable to:				
Owners of the parent		**(1,708)**	(1,424)	(2,211)
Non-controlling interests		**(9)**	—	33
		(1,717)	(1,424)	(2,178)
Loss per share attributable to the equity holders of the parent				
Basic loss per share	9	**2.20p**	**1.84p**	2.64p
Diluted loss per share	9	**2.20p**	**1.84p**	2.64p

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

GROUP STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 30 JUNE 2017

	30 June 2017 £'000	30 June 2016 £'000	31 December 2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	**233**	274	255
Intangible assets	**3,251**	3,527	3,388
Investments	**—**	—	—
	3,484	3,802	3,643
Current assets			
Inventories	**1,183**	1,475	1,319
Trade and other receivables	**1,264**	811	1,559
Cash and cash equivalents	**1,525**	2,065	1,072
	3,972	4,350	3,950
Total assets	**7,456**	8,152	7,593
Equity and liabilities			
Equity			
Ordinary shares	**239**	199	199
Share premium account	**41,604**	40,032	40,032
Merger reserve	**398**	398	398
Foreign exchange reserve	**(148)**	-	(248)
Accumulated losses	**(35,362)**	(33,109)	(33,629)
	6,731	7,520	6,752
Non-controlling interests	**150**	148	159
Total equity	**6,881**	7,667	6,911
Liabilities			
Non-current liabilities			
Deferred tax liabilities	**31**	39	29
Current liabilities			
Trade and other payables	**544**	445	653
Total liabilities	**575**	485	682
Total equity and liabilities	**7,456**	8,152	7,593

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

GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2017

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign exchange reserve £'000	Retained Earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Six month period ended 30 June 2016								
Balance as at 1 January 2016	**199**	**40,032**	**398**	**(139)**	**(31,634)**	**8,856**	**126**	**8,982**
Comprehensive loss								
Loss for the period ended 30 June 2016	—	—	—	—	(1,462)	(1,462)	—	(1,462)
Foreign currency translation differences	—	—	—	38	—	38	22	59
Total comprehensive loss	—	—	—	38	(1,424)	(1,424)	22	(1,403)
Transactions with owners								
Share-based payments	—	—	—	—	88	88	—	88
Total transactions with owners	—	—	—	—	88	88	—	88
Balance as at 30 June 2016	**199**	**40,032**	**398**	**(101)**	**(33,008)**	**7,520**	**148**	**7,667**
Six month period ended 30 June 2017								
Balance as at 1 January 2017	**199**	**40,032**	**398**	**(248)**	**(33,629)**	**6,752**	**159**	**6,911**
Comprehensive loss								
Loss for the period ended 30 June 2017	—	—	—	—	(1,808)	(1,808)	—	(1,808)
Foreign currency translation differences	—	—	—	100	—	100	(9)	91
Total comprehensive loss	—	—	—	100	(1,808)	(1,708)	(9)	(1,717)
Transactions with owners								
Issue of shares	40	1,572	—	—	—	1,612	—	1,612
Share-based payments	—	—	—	—	75	75	—	75
Total transactions with owners	40	1,572	—	—	75	1,687	—	1,687
Balance as at 30 June 2017	**239**	**41,604**	**398**	**(148)**	**(35,362)**	**6,731**	**150**	**6,881**

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

GROUP STATEMENT OF CASH FLOWS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2017

	Note	**6 months ended 30 June 2017 £'000**	6 months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities				
Cash used in operations	10	**(1,010)**	(1,364)	(2,426)
Net cash flows used in operating activities		**(1,010)**	(1,364)	(2,426)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(24)**	(37)	(70)
Proceeds from sale of property, plant and equipment		**—**	—	—
Purchase of patents and development costs		**(25)**	(30)	(44)
Interest received		**—**	3	4
Tax Received / (Paid)		**(8)**	253	452
Net cash flows used in investing activities		**(50)**	190	342
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**1,612**	—	—
Net cash flows used in financing activities		**1,612**	—	—
Net (decrease)/increase in cash and cash equivalents		**552**	(1,174)	(2,084)
Cash and cash equivalents at start of period		**1,072**	3,161	3,161
Exchange (losses)/gains on bank balances		**(99)**	77	(5)
Cash and cash equivalents at end of period		**1,525**	2,064	1,072

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2017

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 public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the Alternative Investment Market (AIM), a market operated by the London Stock Exchange. The registered office and principal place of business is Bramley House, The Guildway, Old Portsmouth Road, Guildford, Surrey GU3 1LR.

This condensed consolidated interim financial information was approved for issue by the Board of Directors on 12 September 2017. These interim financial results are unaudited and do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2016 were approved by the board of directors on 14 March 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

2. Basis of preparation and going concern

2.1 Basis of preparation

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

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

2.2 Going concern

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

The Group's forecasts prepared by the directors reflect that funding requirements have reduced since 2015, as the result of the restructuring plan, delivering an annual net £1.4m reduction in expenditure. The Group's cash 'burn' was £1.16m in the first half of 2017, compared to £1.10m in the first half of 2016.

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

- The £1.53m cash balance as of 30-June-2017;

R&D tax credit receipts of £184k

- £0.5m credit line secured against Modern Water Inc.'s trade receivables
- Improved working capital, specifically a further reduction in inventories and aged trade receivables;
- Continued improvement in the Monitoring Division trading; and
- First meaningful revenue from the Membrane Division.

3. Accounting policies

3.1 Accounting policy and disclosure changes

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016.

4. Principal risks and uncertainties

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

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

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

5. Critical accounting estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under current circumstances. Actual results may differ from these estimates. The key sources of estimation uncertainty during the current year were consistent with the prior year, as detailed in the Group’s 2016 Annual Report and Accounts.

6. Segmental analysis

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

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

Statement of Comprehensive Income	**6 months ended 30 June 2017**				6 months ended 30 June 2016			
	Membrane £’000	**Monitoring £’000**	**Central £’000**	**Total £’000**	Membrane £’000	Monitoring £’000	Central £’000	Total £’000
Revenue	**301**	**1,255**	**—**	**1,556**	**—**	**1,135**	**—**	**1,135**
Cost of sales	**(175)**	**(710)**	**—**	**(885)**	—	(552)	—	(552)
Gross profit	**125**	**546**	**—**	**671**	—	582	—	582
Administrative expenses	**(587)**	**(958)**	**(458)**	**(2,003)**	(718)	(882)	(540)	(2087)
Share-based payments	**—**	**—**	**(75)**	**(75)**	—	—	(88)	(88)
Operating profit/(loss) before tax depreciation and amortisation	**(462)**	**(412)**	**(533)**	**(1,407)**	(718)	(247)	(628)	(1,592)
Depreciation and amortisation	**(42)**	**(205)**	**(0)**	**(247)**	—	—	(249)	(249)
Operating profit/(loss)	**(503)**	**(617)**	**(533)**	**(1,654)**	(718)	(247)	(877)	(1,842)
Finance income	**—**	**—**	**4**	**4**	—	—	127	127
Finance costs	**—**	**—**	**(142)**	**(142)**	—	—	—	—
Profit/(loss) before taxation	**(503)**	**(617)**	**(671)**	**(1,792)**	(718)	(247)	(750)	(1,715)
Taxation	**(8)**	**(8)**		**(16)**	—	—	253	253
Profit/(loss) for the period	**(511)**	**(625)**	**(671)**	**(1,808)**	(718)	(247)	(497)	(1,462)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

SIX MONTH PERIOD ENDED 30 JUNE 2017

7. Administrative expenses by nature

	Note	**6 months ended 30 June 2017 £'000**	6 months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Wages and salaries		**986**	920	2,150
Social security costs		**109**	100	224
Pension costs		**48**	44	92
Other employee benefits		**118**	74	219
Share-based payments	8	**75**	88	107
Operating lease payments		**150**	190	381
Research and development		**63**	30	200
Other administrative expenses		**529**	729	1,231
Total administrative expenses before depreciation and amortisation		**2,078**	2,175	4,414
Depreciation and amortisation charges		**247**	249	502
Total administrative expenses including depreciation and amortisation		**2,325**	2,424	4,916

8. Share-based payments

	6 months ended 30 June 2017 £'000	6 months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Options (including EMI)	**75**	88	107
Conditional share awards	**0**	1	—
Equity-settled share-based payments	**75**	88	107
Cash-settled share-based payments	—	—	—
Total share-based payments charged to the income statement	**75**	88	107

9. Loss per share

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

	6 months ended 30 June 2017 £'000	6 months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Loss attributable to equity holders of the Company	**1,808**	1,462	951
Weighted average number of ordinary shares in issue (thousands)	**82,155**	79,505	79,505
Basic loss per share	**2.20p**	1.84p	2.64p

10. Net cash flows used in operating activities

	6 months ended 30 June 2017 £'000	6 months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Loss on ordinary activities before taxation	**(1,792)**	(1,715)	(2,567)
Adjustments for:			
Depreciation of property, plant and equipment	**86**	99	199
Amortisation of intangible assets	**161**	150	303
Net finance (income)/cost	**138**	(127)	(484)
Share-based payments	**75**	88	107
Movements in working capital:			
(Increase)/Decrease in inventories	**136**	64	296
Decrease in trade and other receivables	**295**	277	(384)
(Decrease) in trade and other payables	**(109)**	(201)	104
Cash used in operations	**(1,010)**	(1,364)	(2,426)

11. Related party transactions

IP Group plc held 16.6% of the ordinary share capital of the Company as at 30 June 2017 and appoints a non-executive director, and it is therefore deemed a related party. A service agreement dated 1 December 2006 was made between the Company and IP Group plc, whereby IP Group plc provides strategic, business development and administrative services to the Company. Fees for the period were £15,000 (2016: £15,000) and as at 30 June 2016 £0 (31 December 2016: £7,500) was outstanding under this agreement.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

SIX MONTH PERIOD ENDED 30 JUNE 2017

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

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

The directors of Modern Water plc are listed in the Modern Water plc Annual Report and Accounts 2016. A list of the current directors is maintained on the Company's website www.modernwater.com.

Alan Wilson
Chairman

Simon Humphrey
Chief Executive Officer

12 September 2017