



31 August 2007

Modern Water plc (“Modern Water” or the “Company”), the water technology investment business, is pleased to announce its interim results for the period to 30 June 2007.

Modern Water on course with first results

Highlights

- Successful flotation in June 2007 raising £30 million before expenses
- Business strategy on track
- Good progress being made with plans for first commercial desalination plant
- Business Development Director appointed post half year end

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

“The Group successfully floated on the London Stock Exchange’s AIM market in June. We are in the early days of rolling out our strategy, but have so far made good progress. I am confident of our ability to deliver our business strategy and the team we have in place to drive this”.

For further information:

Modern Water plc
Neil McDougall, Executive Chairman 07740 930303
www.modernwater.co.uk

HeadLand Consultancy 020 7367 5222
Howard Lee or Tom Gough

KBC Peel Hunt Ltd, Nominated Adviser and Broker 020 7418 8900
Jonathan Marren or Oliver Stratton

Report to Shareholders

Review of Results

This is Modern Water's first set of results since its flotation on AIM in June 2007. During the period, Modern Water and its subsidiaries ("the Group") made good progress in line with its expectations. After accounting for net interest receivable of £115,000 the Group recorded a loss before taxation of £1,065,000. These results reflect the execution of the Group's business strategy, where much of the expenditure is related to gearing up the business to support its key investment and development activities.

The company has successfully migrated all administrative processes and procedures to the Company including a stand alone finance function.

On 12 June 2007 the company raised £30 million before expenses to provide funds for the Group's development and commercialisation strategy. The ongoing research programme for our desalination process continues to make good progress with encouraging results. With sufficient indicative data now in place to complete a retrofit of a desalination plant, Modern Water's key focus is on identifying the first commercial applications. We are in discussions with a number of plant owners and operators, principally in the Mediterranean and Middle East and we will update the market once a deal is finalised. When the first plant is up and running we anticipate that there will be strong demand for the technology.

Good progress has been made in attracting high quality staff with appointments to run Poseidon Water completed. Since 30 June 2007, we have hired a Business Development Director who will focus on the deployment, licensing and selling of the Group's technology to support implementation of the Group's growth strategy.

In line with the Group's strategy to explore new technologies which compliment our strategic focus, we are continuing to look for opportunities to sign licensing agreements with academic and research institutions. This will allow us to review and, where appropriate, invest in technologies where we see potential in terms of application and return on investment.

Business Overview

Modern Water was established to source, develop and deploy technology-based solutions to meet the growing demand for the economic availability of fresh water and treatment of waste water. Due to significant growth in the world's population,

consumption of fresh water and associated shortages are predicted to grow considerably. Modern Water is well positioned to support this growing need.

The Group is initially concentrating on two distinct approaches to the water market. This is (i) desalination technology, which aims to reduce the cost of desalinating sea water as it requires less energy and lower capital expenditure than conventional desalination processes; and (ii) substitution technology, which allows sea water based domestic waste water to be treated to a sufficient quality to meet European Waste Water Standards.

The Group's strategy is to acquire key stakes in appropriate technologies within these areas and to date has made investments in Surrey Aquatechnology Limited and Poseidon Water Limited. The Group also has an investment in Cymtox Limited.

Key Activities

Surrey Aquatechnology Limited

Surrey Aqua is developing processes for the osmotic treatment of water which include the desalination of seawater for potable water, the treatment of water produced from the desalination process and the preparation of water for re-injection for use in the oil industry. The key benefit of this intellectual property is to reduce capital costs, footprint and the operating costs usually associated with desalination plants. Manipulated osmosis technology is suitable to be used in the construction of new and integrated into existing thermal desalination and reverse osmosis desalination plants.

Poseidon Water Limited

Poseidon Water's sewage treatment process is designed to be used on waste water based on either just seawater or a mixture of fresh water and sea water. Conventional waste water sewage treatment processes predominantly treat waste water based solely on fresh or potable water. Where they are based on a combination of fresh water and sea water or just sea water, performance is significantly compromised and they have limited effectiveness. As toilet flushing uses approximately 30 per cent. of all domestic water usage, implementing Poseidon Water's water treatment process can significantly reduce the levels of fresh water required.

Cymtox Limited

Cymtox exploits a new technology that monitors water toxicity on a continuous, real time basis. It checks a wide range of toxicity and warns of suspicious changes. The core technology is based on the well established science of bioluminescence.

Outlook

We are in the early days of rolling out our business strategy, but have so far made good progress. Our overall focus remains on securing a commercial desalination plant and strong progress has already been made. We continue to explore investment opportunities in complimentary technology related to the economic availability of freshwater and treatment of waste water

The Board is confident in the Group's ability to deliver the business strategy and the team we have in place to drive this.

Condensed consolidated interim balance sheet

	Note	30 June 2007 £'000
Assets		
Non-current assets		
Tangible assets	3	15
Intangible assets	3	13,647
Investments	3	75
Total non-current assets		13,737
Current assets		
Receivables		101
Cash and cash equivalents		30,484
Total current assets		30,585
Total assets		44,322
Equity		
Capital and reserves attributable to equity shareholders of the company		
Share capital	4	147
Reserves		43,330
Retained earnings		(298)
		43,179
Minority interest		229
Total equity		43,408
Non-current liabilities		
Deferred income tax liabilities	7	440
Total non-current liabilities		440
Current liabilities		
Trade and other payables		453
Borrowings	5	21
Total current liabilities		474
Total liabilities		914
Total equity and liabilities		44,322

The notes on pages 8 to 14 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim income statement

	Note	Period ended 30 June 2007 £'000
Continuing operations		
Operating expenses	6	(1,112)
Finance income		115
Share of (post tax) losses of associates		(68)
Loss before income tax		(1,065)
Income tax credit	7	3
Loss for the period		(1,062)
Attributable to:		
- equity shareholders of the company		(1,015)
- minority interest		(47)
		(1,062)
All results derive from continuing operations.		

Pence per share

Loss per share for profit attributable to the equity holders of the company

- basic	(5.4)
- diluted	(5.3)

The notes on pages 8 to 14 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of changes in equity

	Note	Attributable to equity holders of the Company						Total equity
		Capital	Share premium	Merger reserve	Retained earnings	Total	Minority interest	
		£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 11 October 2006		-	-	-	-	-	-	-
Loss for the period		-	-	-	(1,015)	(1,015)	(47)	(1,062)
Total recognised income for the period		-	-	-	(1,015)	(1,015)	(47)	(1,062)
Proceeds of share issues	4	120	30,548	-	-	30,668	-	30,668
Share for share exchange		27	-	12,782	-	12,809	-	12,809
Share based payment schemes		-	-	-	717	717	-	717
Minority interest at acquisition		-	-	-	-	-	276	276
Balance at 30 June 2007		147	30,548	12,782	(298)	43,179	229	43,408

The notes on pages 8 to 14 form an integral part of this condensed consolidation interim financial information.

Condensed consolidated interim cash flow statement

		Period ended 30 June
	Note	2007
		£'000
Cash flows from operating activities:		
- continuing operations		(265)
Cash flows from operating activities – net		(265)
Cash flows investing activities:		
- acquisition of subsidiaries, net of cash acquired	8	(110)
- purchases of property, plant and equipment	3	(10)
- other investing cash flow – net		(75)
Cash flows from investing activities – net		(195)
Cash flows from financing activities:		
- net proceeds from issue of ordinary shares		30,948
- repayments of borrowings	5	(4)
Cash flows from financing activities - net		30,944
Net increase in cash and cash equivalents less bank overdraft		30,484
Cash and cash equivalents less bank overdraft at start of period		-
Cash and cash equivalents and bank overdrafts at end of period		30,484

The notes on pages 8 to 14 form an integral part of this condensed interim financial information.

Notes to the condensed consolidated interim financial information

1 General information

Modern Water plc ('the company') and its subsidiaries (together, 'the group') invests in, develops and deploys new water technology.

During the period, the group acquired control of Surrey Aquatechnology Limited, a company developing desalination techniques and acquired control of Poseidon Water Limited, a company developing techniques for the treatment of waste water. The group also acquired an interest in Cymtox Limited, a company developing water purity measurement devices.

The company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is 24 Cornhill, London EC3V 3ND.

The company is quoted on the AIM market of London Stock Exchange plc.

This condensed consolidated interim financial information was approved for issue on 30 August 2007.

These interim financial results do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985.

2 Basis of preparation and accounting policies

Basis of preparation

This condensed consolidated interim financial information for the period from 11 October 2006 and ended 30 June 2007 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 company was incorporated on 11 October 2006 and therefore no comparative information is presented.

The accounting policies adopted are consistent with those disclosed in the AIM admission document of the Group dated 7 June 2007.

Critical judgements

The preparation of the consolidated interim Financial Information has required the application of significant judgement or estimates by management for the following:

- The fair value of the shares issued under the Management Share Incentive Scheme (see note 4) was based on the value of other shares issued at that time
- The fair value of intangible assets acquired in the period was calculated using a replacement cost basis.

The consolidated financial statements of the Company will be prepared under IFRS and the accounting policies described below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights are considered when assessing whether the Company controls an entity.

Subsidiaries are fully consolidated from the date on which control is established by the Company.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are entities over which the Company has significant influence, but does not control, generally accompanied by a shareholding of between 20 per cent. to 50 per cent. of the voting rights.

The equity method of accounting is used to account for the acquisition of the Company's associates. The cost of investment in associate undertakings is measured at fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

The Company's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations

The purchase method of accounting is used to account for the acquisition of the Company's subsidiaries. The cost of acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued, and less liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination that meet the definition under IFRS 3 Business Combinations are initially measured at their fair values at acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets is recorded as goodwill.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. In accordance with IFRS 10; Interim Financial Reporting and Impairment, impairment losses recognised in an interim period on goodwill carried at cost are not reversed at a subsequent balance sheet date. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Property, plant and equipment

All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Fixtures and fittings - 3 to 5 years
Computer equipment - 3 to 5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are capitalised only when it is probable that they will result in future economic benefits flowing to the company and when they can be measured reliably. All other repairs and maintenance expenditure is charged to the income statement in the year in which it is incurred.

Intangible assets

Patents, trademarks and licences

Acquired patents, trademarks and licences are initially recognised at historical cost. They have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents, trademarks and licences over their estimated useful economic lives as follows;

- Patents – 20 years from application

Computer software costs

Acquired computer software licences and software development costs are capitalised and amortised over their estimated useful lives of between three and five years.

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Any internally-generated development intangible asset is recognised only if all of the following are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Internally generated intangible assets are amortised on a straight line basis over three years.

Intangible assets identified as a result of a business combination are dealt with in line with IAS 38, and brought on to the consolidated balance sheet at the date of acquisition.

Impairment of intangible assets and property, plant and equipment

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows (cash generating units 'CGUs').

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are included within property, plant and equipment. The asset is initially measured at fair value, or if lower, the present value of the minimum lease payments. A corresponding liability is recognised within obligations under finance leases. The assets are either depreciated using the same method as similar fixed assets, or the length of the lease, whichever is shorter. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lesser and the finance charge being written off to the income statement over the period of the lease. All other leases are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are initially measured at fair value and are subsequently measured at amortised cost, do not carry any interest, and are reduced by appropriate provisions for estimated irrecoverable amounts. Such provisions are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments with maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables and borrowings

Trade payables are not interest-bearing and are initially measured at their fair value and subsequently measured at amortised cost. Borrowings are initially recognised at their fair value and subsequently measured at their amortised cost.

Equity instruments

Equity instruments are recorded at fair value, being the proceeds received, net of direct issue costs.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the contractual arrangements entered into.

Revenue recognition

All revenue in respect of licence income is recognised over the period of the licence and is stated exclusive of value added tax. Revenue from contracts will be recognised in accordance with IAS 11; Construction Contracts.

Gains on disposal of equity investments represent the surplus over carrying value on the disposal of equity investments and are recognised when the right to receive payment is established. Dividend income is recognised when the right to receive payment is established.

Employee benefits

Pension obligations

The group does not operate any pension schemes for employees but makes contributions to employee personal pension schemes on an individual basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

Share based payments

Share based incentive arrangements are provided to management, certain employees and certain professional advisors. Share options are valued at the date of grant using an appropriate option pricing model and are charged to operating profit over the vesting period of the award. The annual charge is modified to take account of options granted to employees who

leave the Group during the performance or vesting period and forfeit their rights to the share options and in the case of non-market related performance conditions, where it becomes unlikely they will vest.

Taxation

Taxation in the income statement represents the sum of the tax currently payable and deferred tax on items charged or credited to the income statement.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured on a non discounted basis using tax rates at the balance sheet date.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants including non-monetary grants at fair value shall not be recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants relating to tangible fixed assets are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Other grants are credited to the income statement as the related expenditure is incurred.

3 Capital expenditure

	Tangible assets £'000	Goodwill £'000	Patents £'000	Investments £'000	Total £'000
Opening net book amount at 11 October 2006	-	-	-	-	-
Acquisition of subsidiary (Note 8)	7	12,079	1,582	-	13,668
Additions	10	-	-	75	85
Depreciation / amortisation	(2)	-	(14)	-	(16)
Closing net book amount at 30 June 2007	15	12,079	1,568	75	13,737

Goodwill is not subject to amortisation, but is tested for impairment annually at year-end (31 December) or whenever there is any indication of impairment. At 30 June 2007, there was no indication of impairment for goodwill.

On 14 December the company acquired 17% of the share capital of Cymtox Limited for a consideration of £75,000.

4 Share Capital

	Number of shares (thousands)	Ordinary shares £'000	Share premium £'000	Total £'000
Opening balance 11 October 2006	-	-	-	-
Initial funding	75	-	2,249	2,249
Management Share Incentive Scheme	40	-	-	-
Bonus issue	57,108	57	(57)	-
1 for 10 consolidation	(51,500)	-	-	-
4 for 1 subdivision	17,167	-	-	-
Acquisition of subsidiary (see note 8)	10,763	27	-	27
Placing of shares	25,210	63	29,937	30,000
Placing expenses	-	-	(1,581)	(1,581)
At 30 June 2007 (0.25 pence per ordinary share)	58,863	147	30,548	30,695

All shares issued were fully paid.

Modern Water Incentive Plan

The directors' holdings of options over ordinary shares issued under the Modern Water Incentive Plan were as follows

	Date of grant	Granted in period	Exercised in period	Exercisable from	Exercisable to	Exercise price
Neil McDougall	12.06.07	560,877	-	12.06.08*	12.06.17	119p
Simon Humphrey	12.06.07	1,121,753	-	12.06.08*	12.06.17	119p
At 30 June 2007		1,682,630	-			

* The Modern Water Incentive Plan provides options subject to performance criteria. One third of the options vest on the date 12 months from AIM admission, one third vest on the date 24 months from AIM admission and one third vest on the date 36 months from AIM admission. Each tranche will vest subject to total shareholder return being at least equal to 10 per cent for the 12 months preceding the relevant tranche vesting date.

Directors' holdings under the Management Share Incentive Scheme ("MSIS")

The directors' holdings of ordinary shares issued under the MSIS were as follows

	Date of subscription	No of Ordinary Shares	Subscription price
Neil McDougall	1.12.06 & 12.03.07	3,363,400	0.1p
Simon Humphrey	1.12.06 & 12.03.07	1,479,000	0.1p
Gerald Jones	1.12.06	200,000	0.1p

One third of the MSIS shares are not subject to restrictions. One third of the MSIS shares are subject to restrictions which are lifted on 1 December 2007. One third of the MSIS shares are subject to restrictions which are lifted on 1 December 2008.

5 Borrowings and loans

	30 June 2007
	£'000
Non-current	-
Current	21
	<hr/> 21

Movements in borrowings is analysed as follows:

Period ended 30 June 2007

Opening amount as at 11 October 2006	-
Acquisition of subsidiary (Note 8)	25
Repayments of borrowings	(4)
Closing amount as at 30 June 2007	<hr/> 21

6 Operating expenses

The following items have been charged to operating expenses during the interim period:

	Period ended
	30 June
	2007
Fair value of employee share based remuneration	477
Other share based payments for services from IP Group plc	240
Wages and salaries	130
Social security costs	15
Depreciation of tangible fixed assets	2
Amortisation of intangible assets	14
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IP Group plc is a significant shareholder of the company.

7 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 £440,000 at 30 June 2007 arises from taxable temporary differences on intangibles recognised on business combinations and is expected to unwind over the useful economic life of these assets. £3,000 has been credited to the Income Statement to 30 June 2007.

8 Business combinations

On 14 December 2006 the group acquired 51% of the share capital of Poseidon Water Limited ("Poseidon") for a cash consideration of £425,000.

The acquired business contributed revenues of £nil and net losses of £96,000 to the group for the period from acquisition to 30 June 2007. If the acquisition had occurred on 11 October 2006, consolidated revenue and consolidated losses for the period ended 30 June 2007 would have been £nil and £100,000 respectively.

On 30 November 2006 the group acquired 30% of the share capital of Surrey Aquatechnology Limited ("Surrey Aqua") for a cash consideration of £535,000.

On 12 June 2007 the group acquired the remaining 70% of the share capital of Surrey Aqua in a share for share exchange with a fair value consideration of £12,809,000 (10,763,000 Modern Water plc shares).

The acquired business contributed revenues of £nil and net costs of £15,000 to the group for the period from acquisition to 30 June 2007. If the acquisition had occurred on 11 October 2006, consolidated revenue and consolidated losses for the period ended 30 June 2007 would have been £nil and £247,000 respectively.

Details of net assets acquired and goodwill are as follows:

	Poseidon	Surrey Aqua 30 November 2006	Surrey Aqua 12 June 2007	Total
	£'000	£'000	£'000	£'000
Purchase consideration:				
- cash paid	425	535	-	960
- fair value of shares issued	-	-	12,809	12,809
Total purchase consideration	425	535	12,809	13,769
- fair value of net identifiable assets acquired (see below)	(288)	(468)	(934)	(1,690)
Goodwill	137	67	11,875	12,079

The goodwill is attributable to the subsidiaries' potential in their markets and the synergies expected to arise after acquisition by the group.

The assets and liabilities arising from the acquisitions are as follows:

	Poseidon		Surrey Aqua 30 November 2006		Surrey Aqua 12 June 2007	
	£'000	£'000	£'000	£'000	£'000	£'000
	Acquiree's carrying amount	Fair value	Acquiree's carrying amount	Fair value	Acquiree's carrying amount	Fair value
Cash and cash equivalents	413	413	622	622	437	437
Property, plant and equipment	5	5	-	-	2	2
Intangibles	-	319	-	1,301	-	1,263
Receivables	-	-	-	-	25	25
Payables	(59)	(59)	-	-	(39)	(39)
Loan	(25)	(25)	-	-	-	-
Deferred tax liability	-	(89)	-	(364)	-	(354)
Net identifiable assets	334	564	622	1,559	425	1,334
Minority interests	49%	(276)	70%	(1,091)	30%	(400)
Net identifiable assets acquired		288		468		934

Outflow of cash to acquire business,
net of cash acquired:

- cash consideration	425	535	-
- cash and cash equivalents in subsidiary acquired	(413)	-	(437)
Cash outflow/(inflow) on acquisition	12	535	(437)

Independent review report to Modern Water plc

Introduction

We have been instructed by the company to review the financial information for the period from 11 October 2006 to 30 June 2007 which comprises the condensed consolidated interim balance sheet as at 30 June 2007 and the related condensed consolidated interim statements of income, cash flows and changes in equity for the period then ended and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors.

This interim report has been prepared in accordance with the International Accounting Standard 34, 'Interim financial reporting'.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of assisting it in meeting the requirements of the AIM Rules and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the period ended 30 June 2007.

PricewaterhouseCoopers LLP
Chartered Accountants
Gatwick
30 August 2007

Notes:

- a) The maintenance and integrity of the Modern Water plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.