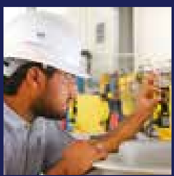
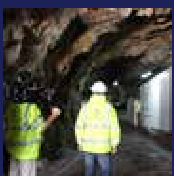
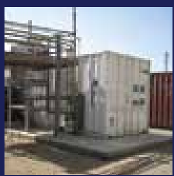
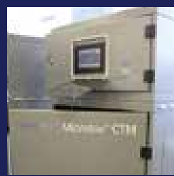









Modern Water plc

Annual Report and Accounts 2015

MODERNWATER

www.modernwater.com

Business at a Glance

Modern Water owns a portfolio of water technologies to address the limited availability of fresh water and the treatment and disposal of wastewater worldwide. By 2025, it is forecast that two-thirds of the world's population will live in countries classified as water-stressed. Climate change is likely to further exacerbate this situation.

Managed by an executive team with extensive experience in the water industry, Modern Water is at the leading edge of new and developing technologies, products and services, which are vital to the future sustainability of the world's most precious commodity.

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.

Membrane Division
Thermal Desalination (Industrial)
Membrane Brine Concentration (Industrial)
Evaporative Cooling Systems (Industrial)
Packaged SWRO Desalination Systems (Municipal & Industrial)
Wastewater Treatment (Municipal)

Monitoring Division
Trace Metal Products
Toxicity Products
Environmental Products

Contents

Chairman’s Statement

This past year has seen significant changes at Modern Water. We have restructured and removed over £1m from our overheads in order to improve our competitiveness and reduce the cash burn, to the extent that we can now see clear trading visibility well into 2017. A number of senior management changes have taken place, which I believe will significantly improve our customer and market focus, whilst enhancing our overall performance. At board level, we have seen the retirement of Robert Clarke and Michael Gradon and I’d like to thank them both for their sterling efforts.

Our strategic review of the water monitoring market highlighted that our product portfolio is highly regarded by customers and there are substantial opportunities for growth. We have identified ways to refocus our market approach, so that we can directly offer spares and services, which will give rise to better customer understanding and longer-term sales opportunities. To that end, we have recently appointed a new President of the Monitoring Division, who will be based in the USA. At an operating level, I am pleased to report that sales in the Monitoring Division increased by 19% compared to last year, mostly due to increased sales of the Microtox® Continuous Toxicity Monitor (CTM) and delivery of the division’s largest order to date with the sale of a purpose-built containerised trace metal monitoring system in the Middle East for a large multinational company.

In our Membrane Division, we have had encouraging endorsement of our technology with the formation of joint working agreements with some global corporations, who clearly see potential in what we’ve been developing to-date. One example is our recently announced agreement with Bilfinger Deutsche Babcock for the joint development of Forward Osmosis technology in conjunction with multi-stage flash desalination plants in the Middle East and Northern Africa. We have also taken steps to refocus our sales efforts towards industrial corporations who are able to offer us direct access to live business opportunities where our technology offers them a competitive advantage as part of their overall offering to end-customers.

We are looking forward to the much-reported contract award for the construction of a waste-water treatment plant in Gibraltar materialising in due course. Our joint venture with Northumbrian Water has been selected as preferred bidder in a formal procurement tender and HM Government of Gibraltar has announced that the project will proceed and we expect a formal contract award by mid-year.

As for our 2015 financial results, revenue and gross profit increased on the prior year, whilst overheads reduced, resulting in an operating loss of £4.2m (2014: £5.1m). Cash burn in 2015 reduced to £3.6m (2014: £4.6m). The Group’s financial position remains debt free, with cash of £3.2m as at 31 December 2015 (2014: £6.8m).

The outlook for 2016 looks promising because we are more market focused, we have improved our cost base and we have a refined strategy which will enable us to bring our world leading technology to key markets in a quicker timeframe.

Alan Wilson
Non-Executive Chairman
16 March 2016

Strategic Report

The Directors of Modern Water plc (Modern Water or the Company) and its subsidiary undertakings (which together comprise the Group) present their Strategic Report for the year ended 31 December 2015.

Principal Activities
Modern Water plc is the holding company of a trading group, the principal activities of which are to own, develop and supply technologies, products and services related to the provision of fresh water and treatment and disposal of waste water, specifically:

- design, construction, testing, installation, commissioning and operation of desalination plants, water cooling systems and brine concentration plants;
- packaged seawater desalination systems;
- wastewater treatment systems; and
- water quality monitoring, environmental monitoring and soil testing.

Membrane Division

Strategy
The Company has continued to pursue its key strategic goals and has begun to see clear progress towards commercialisation of its technologies. The focus of the Company is on four market areas within a clear framework to:

- develop and commercialise our membrane technologies that have unique competitive advantage; and
- work with strategic partners, by product and territory, who have proven track records in the target sector, on joint development and commercialisation; risk sharing; licensing; and protecting and expanding our IP.

Forward Osmosis (FO) Pre-treatment for Thermal Desalination
In January 2016 Modern Water signed an agreement with Bilfinger Deutsche Babcock Middle East, one of the region's leading service providers for construction, rehabilitation, operations, maintenance and life cycle services in a range of industries.

The agreement covers the joint development and commercialisation of Modern Water's proprietary Forward Osmosis technology, in conjunction with multi-stage flash (MSF) desalination plants across the Middle East and Northern Africa. The product offering will allow MSF desalination plant owners and operators to improve the performance and energy efficiency of both existing plants and any new plants under development.

Following a detailed successful assessment of the combined process, the parties are now developing their product offering for deployment at an operational desalination plant. During the initial pilot phase, the plant will develop and demonstrate the effectiveness of Forward Osmosis to osmotically dilute and soften the recirculating brine of the desalination plant, allowing an increase in top brine temperature (TBT), which crucially reduces both the thermal and electrical energy consumption, whilst maintaining the same output.

Our refined strategy is to focus on industrial applications of our cutting-edge proprietary technologies, and this agreement with Bilfinger Deutsche Babcock Middle East is a significant endorsement of this focus. Bilfinger Deutsche Babcock Middle East is a major player in the MSF desalination market, having built, maintained and upgraded many of the existing stock of plants in the region. This project secures us another significant foothold in the large and important Middle East and North Africa markets.

Membrane Brine Concentration
During 2015 the Company has developed an All Membrane Brine Concentrator (AMBC). Using this technology the company is able to concentrate wastewater flows to higher levels than existing membrane technologies. We are engaged in on-going discussions with potential partners to commercialise this technology in industrial applications in India and China.

Forward Osmosis (FO) Evaporative Cooling Systems
The Company has continued to refine its technology to reduce the cost and environmental impact of the evaporative cooling system. In line with our stated strategy for the membrane business we are in discussion with a number of potential partners to undertake field tests of our technology in water scarce regions.

Aquapak

During 2015 the Company launched its range of low cost seawater and brackish water reverse osmosis plants using the AquaPak brand name.

To support this initiative the Company appointed a dedicated Middle East Sales Manager in August 2015 based in the UAE. This has created a large number of enquiries and we are confident of closing the first projects in the first half of 2016.

In Oman the division continued to successfully operate and maintain the Al Najdah Forward Osmosis (FO) desalination plant, which is 100% locally managed.

Wastewater Treatment

Following an EU public procurement process in October 2014, HM Government of Gibraltar selected a joint venture between Modern Water Services Limited and Northumbrian Services Limited as preferred bidder for a wastewater treatment plant in Gibraltar. Negotiations with the Government of Gibraltar are on-going. The next stage of the procurement process after the preferred bidder stage is the award of the contract.

The contract includes the design, build and operation of a wastewater treatment plant capable of treating urban wastewater for the entire population of Gibraltar as well as storm flows. Modern Water would be the lead contractor and undertake the design and build of the treatment plant with a current contract value of approximately £21m.

Monitoring Division

Strategy and Performance Review

During the year the Company undertook a strategic review of its Monitoring Division. The review highlighted our customers' recognition of the high quality products offered by Modern Water. As a result of the review the division has undertaken to focus resources on key markets and key products.

The division's three key geographical markets are North America, Europe and China. The divisional objective is to be the global leader in toxicity and trace metals monitoring.

The Company has appointed Doug Workman as President of the Modern Water Monitoring Division with a mandate to lead the division to achieve these goals. Doug is based in our US Head Office in Delaware.

The Monitoring division achieved sales of £3.2m in 2015 (2014: £2.7m). The revenue increase was due to increased sales of the Microtox® Continuous Toxicity Monitor (CTM) and delivery of the division's largest order to date with the sale of a purpose-built containerised trace metal monitoring system in the Middle East for a large multinational company.

The containerised system marks a step-change in the Monitoring Division's activities as it was Modern Water's first purpose-built unit of this kind, and one which demonstrates our ability to supply fully containerised monitoring systems anywhere in the world. The unit was completed in 2014 and delivered to the customer and payment received in 2015.

Recurring revenues of service contracts and reagent sales remained constant at £1m in 2015.

Group Key Performance Indicators (KPIs)

At the Company's current stage of development, the Directors consider that strategic and operational progress is best measured by achievement in terms of technical and business development milestones. Key milestones against which progress was made in 2015, and on which we will continue to focus on during 2016, are:

- strengthened relationships in the Middle East, via the recruitment of a Regional Sales Manager for the region and the delivery of a containerised monitoring station into the territory;
- development of relationships with industrial partners; and
- deployment of wastewater technologies, specifically in joint venture similar to the arrangement with Northumbrian Services Ltd as preferred bidder to the Government of Gibraltar, for the design, build and operation of a state-of-the-art wastewater treatment plant.

Further details of strategic and operational progress for the two main operating divisions are outlined in the Membrane and Monitoring sections of this Strategic Report. The Board reviews strategic, operational and financial information on a monthly basis to measure progress. The key financial performance indicators for 2015, covered in more detail in the Financial Review and the financial statements, were:

- revenue increased to £3.2m (2014: £2.8m);
- gross profit £1.2m (2014:£1.2m);
- operating loss before tax, interest, depreciation, amortisation and exceptional items decreased to £3.7m (2014: £4.5m);
- loss for the year £3.8m (2014: £17.7m), after exceptional items, £nil (2014:£12.8m);
- cash outflow decreased to £3.6m (2014:£4.6m); and
- cash as at 31 December 2015 was £3.2m (2014:£6.8m).

Further information on the financials is detailed in the Group Financial Review section of this Strategic Report.

Group Research & Development (R&D)

The Group continues to invest in R&D across membrane, wastewater and monitoring technologies to support the development and delivery of commercial products for customers and expand the patent portfolio of the Group. Expenditure recorded in the Statement of Comprehensive Income for R&D during the year was £156,000 (2014: £339,000). The Group has benefited from the HMRC R&D tax credits scheme during 2015 with the receipt of £0.1m cash for 2013 R&D. The Group will submit claims for recovery of 2014 and 2015 R&D expenditure to HMRC in 2016.

Group Patent Portfolio & Intellectual Property

Our patent portfolio continued to strengthen in 2015, with patents granted in new territories across a number of different patent families. The Membrane Division holds 104 (2014: 96) granted patents across eight main patent families comprising solvent removal, improved solvent removal, secondary oil recovery, osmotic energy, separation process, evaporative cooling, cooling tower improvements and thermal desalination.

A first patent was granted for electro-coagulation in 2015 which now brings the total of Modern Water's innovative wastewater treatment patents to seven (2014: 6). The Monitoring Division currently holds 18 granted patents (2014: 18).The Group holds 129 granted patents in total (2014: 120) with a further 29 pending applications (2014: 43).

Group Resources

Modern Water strives to create a community, not just a workplace, and makes an effort to encourage collaboration and networking across the Group. We also support the ongoing development of our employees and have an excellent track record in key staff retention.

Our strategy of employing local workers wherever we operate continued during 2015, especially in Oman where our operations continue to be 100% locally managed with support from our central technical team. Both our Membrane and Monitoring Divisions have adopted this strategy which is working well.

As at 31 December 2015 the Group employed 49 permanent staff (2014: 52), supplemented by contract staff as required.

Group Financial Review

Summary

The Group had £3.2m cash in the bank and no debt at 31 December 2015 (2014: £6.8m cash). During the year the Group continued to incur losses, reflecting the early stage of commercial roll out, prior to securing significant sales contracts, particularly in the Membrane Division. Loss before exceptional items, interest, tax, depreciation and amortisation reduced to £3.7m (2014: £4.5m). The reduction on the prior year losses was primarily due to a reduction in operating costs, following a staff reorganisation in the first half of 2015, and an increase in gross profit from the Monitoring Division. The reorganisation has removed £1.1m of administrative expenses, of which £0.2m has been reinvested, delivering a £0.9m recurring annual saving in overheads.

The Group generated revenue of £3.2m in 2015 (2014: £2.8m), with the increase primarily due to the sale of a large containerised trace metals monitoring station and an increase in sales of the Microtox® Continuous Toxicity Monitor (CTM). The Group incurred exceptional costs of £nil (2014: £12.8m), consequently total comprehensive loss reduced to £3.9m (2014: £17.7m).

Cash Flows
The Group cash outflow, for the year was £3.6m (2014: £4.6m). This reduction in cash burn was due to the increase in gross profit, reduction in operating expenses and improvement in working capital movement during the year.

Cash inflow from interest was nil (2014: £0.1m). Cash inflow from R&D tax credit was £0.1m (2014: £nil). Cash outflows comprised £0.1m on property, plant and equipment (2014: £0.1m), £0.1m on patents (2014: £0.1m) and £3.6m on operating activities (2014: £4.5m).

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 instant access current and deposit accounts. Credit risk is addressed by the Group's treasury policy. 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 of financial risk management.

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 2014 as the result of the restructuring plan, delivering an annual net £0.9m reduction in expenditure. The Group's cash burn has reduced to £1.0m for the 6 months to the end of February 2016, and is planned to remain at this level through 2016 and 2017.

The Group's funding requirements will be met from:
- £3.2m opening cash balance;
- R&D tax credits receipts from HMRC for 2014 & 2015;
- favourable movement in the Group's working capital, specifically reduction in inventories and aged trade receivables in the Monitoring Division; and
- continued improvement in the Monitoring Division trading.

In addition Modern Water is pursuing a number of commercial opportunities, which would provide incremental positive cash inflows, the most significant of which is the joint venture between Modern Water and Northumbrian Water. In the event of these commercial opportunities not progressing through 2016/2017, the Group would need to obtain additional funding in the second half of 2017.

Principal Risks and Uncertainties
The principal risks inherent in the operation of the Group are well understood by the Board of Directors and the Management Team. Control measures have been established to ensure that these, and other, risks are adequately controlled both in terms of frequency and consequence. The internal control environment is described in the Corporate Governance Statement. The principal risks and uncertainties affecting the Group and the steps taken to manage these are:

Customer acceptance of the Group's technologies and emergence of competing technologies
The Group's success depends on potential customer acceptance of its products and processes. There are significant risks in predicting the size and timing of material revenue. The target customers of the Group's products and processes are often in developing countries which carry additional potential risks. The Group seeks to address these risks by building a track record and proving technology capabilities to future customers and industry players. The Group has increased investment in business development as product development progresses. Modern Water has formed a number of strategic partnerships to create local presence in target countries, overcome pre-qualification criteria on contract tendering and establish new routes to market. The range

of applications for the Group's products provides mitigation against the risk of failure in a specific country or application. The Group continues to invest in research and development (R&D) to mitigate the risk of the emergence of competitor technologies.

Socio-political risks
Modern Water operates, and is looking to secure further contracts and sales, in a number of countries around the world. This exposes the Group to a range of social and political developments and consequentially to potential changes in the operating, regulatory and legal environment. The Group operates and generates revenue in countries where political, economic and social transition is taking place. Some countries have experienced, or may experience in the future, political instability, changes to the regulatory environment, changes in taxation, expropriation or nationalisation of property, civil strife, strikes, acts of war and insurrections. Any of these conditions occurring could disrupt our operations and revenue. The Group seeks to manage these risks through diversifying the regions in which it operates.

Scaling up the technology
The Group's Membrane Division and certain monitoring products are not yet well established commercially. They have been developed over recent years and whilst the proving of the technology is largely complete there remain significant risks associated with commercialising technology and a portfolio of new products. There are technology and procurement risks in scaling up the products through to large scale commercial deployment. The Group seeks to mitigate these risks through the use of partners with proven manufacturing and fabrication capabilities, rather than developing in-house capabilities, and through the development and operation of pilot plants prior to full commercial deployment.

Additionally there are risks related to developing the optimum contract, royalty and licensing models to derive value from the products. The Group manages these risks through employment of executives and senior management with significant experience both in the water industry and in the development and growth of early stage companies.

Intellectual Property (IP) protection
The Group's ability to generate value from its products depends in part on the development and protection of its IP. The Group assigns significant resources, both internally through the Company's General Counsel and technical staff, and externally through patent attorneys, to enhance and protect its patented and non-patented IP.

Recruitment and retention of key personnel
The Group's directors and employees are highly qualified and experienced. Recruiting and retaining key staff is critical to the overall success. Knowledge and experience of the Group's products and customer base is retained by a relatively small number of individuals. The risk of staff loss is mitigated through its HR policies, competitive remuneration (including the Modern Water plc Incentive Plan), performance appraisals and training.

Health and safety
There are inherent health and safety risks with the deployment of the core membrane and monitoring products. The mitigation of any health and safety events involving the Group's products is key to the strategy for growth. The Group mitigates its health and safety risks through its Group Health and Safety Policy, which includes regular reporting to the Board and to the Management Team.

Capital risks
It may be desirable for the Company to raise additional capital by way of the further issue of Ordinary Shares to enable the Company to progress through further stages of development. Any additional equity financing may be dilutive to shareholders. There can be no assurance that such funding, if required, will be available to the Company.

Financial risks
These risks and mitigating controls are described in note 3 to the Accounts.

The Strategic Report was approved by the Board of Directors on 16 March 2016 and signed on its behalf by:

Simon Humphrey
Chief Executive Officer
16 March 2016

Corporate Governance Statement

Corporate Governance

The Board of Modern Water plc is committed to integrity, business ethics and achieving good standards of corporate governance. As an AIM-listed company, Modern Water plc is not required to issue a statement of compliance with the principles and provisions of The UK Corporate Governance Code (the "Code"). However, this Corporate Governance Statement, together with the information contained in the Directors' Remuneration Report on pages 9 to 11, explains how the directors seek to apply the requirements of the Code to the Group, where practical given its size, resources and stage of development.

Board of Directors

The Board comprises one executive director, the Chief Executive Officer (Simon Humphrey), and two non-executive directors (Alan Wilson and Mike Townend). Alan Wilson was appointed on 1 May 2015 and is the Non-executive Chairman and independent. Mike Townend is a representative of IP Group plc. Two non-executive directors, Michael Gradon and Robert Clarke resigned from the Board during 2015. Alan Wilson is the Interim Chairman of both the Audit and Remuneration Committees.

The business and management of the Group and its subsidiaries are the collective responsibility of the Board. At each meeting the Board considers and reviews the performance of each of the major projects. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results, and a review of the overall system of internal control and risk management.

Authority for the execution of the approved policies, business plan and daily running of the business is delegated to the executive directors. In addition, there is a Management Team whose purpose is to assist the Chief Executive Officer in the performance of his duties.

Modern Water plc's Articles of Association require one third of the directors to stand for re-election each year at the Annual General Meeting. Accordingly, Alan Wilson will retire and offer himself for re-election at the forthcoming Annual General Meeting.

All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that board procedures and applicable rules and regulations are observed. The Board has a procedure whereby any director may seek, through the office of the Company Secretary, independent professional advice, at the Group's expense, in furtherance of his duties.

Formal agendas and reports are provided to the Board on a timely basis for board and committee meetings and the Chairman ensures that all directors are properly briefed on issues to be discussed at board meetings. Directors are able to obtain further advice or seek clarity on issues raised at the meetings from within the Group or from external sources.

Business Ethics

We are committed to acting fairly and ethically in all countries in which we operate. We expect the same standards from all third parties who provide services for Modern Water plc and its subsidiary companies. We maintain anti-bribery, and gifts and entertainment policies, and procedures for contractual commitments to better manage risk with third parties.

Committees

The Board has a Remuneration Committee and an Audit Committee. The executive director is not a member of the committees, but attends the meetings by invitation to facilitate business, if appropriate. The Company Secretary acts as secretary to the committees. The Board does not have a Nomination Committee and Board appointments are consequently a matter for the Board as a whole. The Board is satisfied that the committees discharged their responsibilities appropriately.

Remuneration Committee

The Remuneration Committee consists of Alan Wilson (Interim Chairman) and Mike Townend. Further details of the committee and its policies are set out in the Directors' Remuneration Report on pages 9 to 11.

Audit Committee

The Audit Committee consists of Alan Wilson (Interim Chairman) and Mike Townend.

The committee reviews and makes recommendations on the appointment, reappointment and removal of the external auditors, the review of the scope and results of the external annual audit by the auditors, their cost effectiveness, independence and objectivity. The committee also reviews the nature and extent of any non-audit services provided by the external auditors. No independence issues were noted during the year. The Group

Financial Controller monitors the level and nature of non-audit services and specific assignments are identified for approval by the Audit Committee as appropriate.

In addition, the Audit Committee reviews the effectiveness of internal controls, considers the need for an internal audit function and considers any major accounting issues, and reports on such matters to the Board. The Audit Committee reviews the integrity of the financial statements and formal announcements.

A whistle-blowing arrangement exists whereby matters can be confidentially reported to the committee.

Attendance
The following table shows attendance of the directors at meetings of the Board, Remuneration and Audit Committees during the year:

	Board		Remuneration		Audit	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Alan Wilson	5	5	0	0	2	2
Simon Humphrey	8	8	-	-	-	-
Michael Gradon	8	8	2	2	4	4
Mike Townend	7	8	1	2	3	4
Robert Clarke	4	4	2	2	2	2

Internal Control
The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The implementation and maintenance of the risk management and internal control systems are the responsibility of the executive director(s) and senior management. The internal control system is designed to mitigate the principal risks, amongst others, detailed in the Directors' Report, but it does not provide absolute assurance that these risks are eliminated or against material misstatement or loss. The Board is satisfied with the controls in place for identification and management of risk and that the reporting lines have been in place throughout the year under review. The key internal controls in place during the year and up to the date of approval of the report included:

- reporting to the Board, including key financial information and commentary (Group Statement of Comprehensive Income, Group Statement of Financial Position, Group Statement of Cash Flows) and the Chief Executive Officer's report on the business, significant changes and the external marketplace, including the extent to which they represent significant risk;
- detailed corporate policies and procedures document to address key operating and compliance risk areas, including procurement, treasury, human resources, health and safety;
- clear organisational structure with defined reporting lines and delegated authorities;
- the Audit Committee;
- centralised accounts team providing financial control and support to all Group companies; and
- an annual strategy review and an annual budget approved by the Board.

The Board has considered the need for an internal audit function, but because of the size and nature of its operations does not consider it necessary at the current time.

Relations with Shareholders and Investors
The Board is regularly updated regarding meetings and communications with shareholders. An analysis of the shareholder base is presented to the Board on a quarterly basis. Research notes and broker analysis are circulated to and discussed with the Board. During the year, the Chairman at the time met with institutional investors at meetings arranged by the Group's brokers and financial PR advisers.

Copies of the Annual Report and Accounts are issued to all shareholders. Copies of the Annual Report and Accounts and the Interim Statement are available on the website: www.modernwater.com. The Group makes full use of its website to provide information to shareholders and other interested parties. The website provides a facility to receive email alert notifications of Group news and regulatory announcements to the London Stock Exchange. Shareholders are given the opportunity to raise questions at the Annual General Meeting and the directors are available both prior to and after the meeting for further discussion with shareholders. Alan Wilson, as the senior independent non-executive director, is available to shareholders where contact through the normal channels of Chief Executive Officer or Company Secretary is inappropriate or has failed to resolve concerns.

Directors' Remuneration Report

Introduction

This report has been approved by the Board and the Remuneration Committee (the 'Committee'). It has been prepared to comply with the disclosure requirements of Schedule 5 to the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report also provides the information required to be reported on Directors' remuneration under AIM Rule 19. The Committee is committed to maintaining high standards of corporate governance and has taken steps to comply with the principles of best practice, including the ABI Principles of Remuneration and The UK Corporate Governance Code in so far as they can be applied practically given the size of the Group.

Role of the Remuneration Committee

The Committee determines, in accordance with its terms of reference, the remuneration and other benefits, including bonuses and share-based payments, of the executive director.

The Committee consulted with the executive director about its remuneration proposals for the year.

Remuneration Policy

The Committee is aware that the remuneration package should be sufficiently competitive to attract, retain and motivate individuals capable of achieving the Group's objectives and thereby enhancing shareholder value. Performance-based remuneration should be clearly aligned with business strategy and objectives and be regularly reviewed. Overall arrangements should be prudent, well communicated, incentivise effectively and recognise shareholders' expectations.

Service Contracts

The Group's policy is for executive directors to have service contracts with provision for termination of no more than 12 months' notice.

Alan Wilson has a letter of appointment. Appointments can be terminated by the Group or the individual giving one month's notice. The services of Mike Townend are covered in a services agreement with IP Group plc, a significant shareholder in the Company.

The details of the executive and non-executive directors' service contracts during the year are summarised below:

	Director	Date of contract	Notice period (months)
Directors during the year and up to the date of approval of the financial statements			
Simon Humphrey	Chief Executive Officer	18 May 2007	12
Alan Wilson*	Independent Non-executive Chairman	26 March 2015	1
Mike Townend	Non-executive	18 May 2007	1
Directors during the year, but not at the date of approval of the financial statements			
Michael Gradon**	Independent Non-executive	14 March 2007	1
Robert Clarke***	Independent Non-executive	17 June 2010	1

*Alan Wilson was appointed Chairman of the Board effective 1 May 2015. He was appointed Interim Chairman of the Audit Committee on 15 September 2015 and Interim Chairman of the Remuneration Committee on 15 March 2016.

**Michael Gradon resigned from the Board and as Chairman of the Remuneration Committee on 31 December 2015.

***Robert Clarke resigned from the Board and as Chairman of the Audit Committee on 15 September 2015.

Directors' Remuneration

Remuneration for executive director(s) comprise basic salary, annual bonus, pension, share-based payments and insurance cover for medical, life and income protection. The bonus payable is determined by performance against objectives, approved by the Committee, which are set at the beginning of each year.

The Board, within the limits stipulated by the Articles of Association and with recommendation from the executive directors, determines non-executive directors' fees. The remuneration of the non-executive directors is not pensionable and the non-executive directors do not participate in any of the Group's other remuneration schemes.

Directors' Remuneration Report

Remuneration for the directors during the year was as follows:

	Basic salary, allowances and fees	* Bonus	Benefits	Year ended 31 December 2015 Total (ex pension)	Pension	Year ended 31 December 2015 Total (inc pension)	Year ended 31 December 2014 Total (ex pension)	Pension	Year ended 31 December 2014 Total (inc pension)
	£000	£000	£000	**£000**	£000	**£000**	£000	£000	£000
Executive directors									
Neil McDougall**	—	—	—	—	—	—	**342**	17	**359**
Simon Humphrey	138	—	4	**142**	14	**156**	**142**	14	**156**
Non-executive directors									
Alan Wilson	40	—	—	**40**	—	**40**	—	—	—
Michael Gradon	35	—	—	**35**	—	**35**	**35**	—	**35**
Robert Clarke	22	—	—	**22**	—	**22**	**20**	—	**20**
Mike Townend***	—	—	—	**—**	—	**—**	**—**	—	**—**
	235	—	4	**239**	14	**253**	**539**	31	**570**

* Bonuses are disclosed in the year for which the performance relates. There were no bonuses in relation to 2014 or 2015 annual performance.

**Mr Neil McDougall stepped down from the Board on 31 December 2014. Mr McDougall had a service contract with the Company terminable by the Company on one year's notice. The Company has agreed to pay Mr McDougall as compensation for loss of office an amount approximately equivalent to one year's salary and other benefits. This amount was £167,000, which includes remuneration in relation to a 12 month consultancy contract between Mr McDougall and the Company. The Remuneration Committee exercised its discretion such that the EMI options granted to Mr McDougall in 2013 were not forfeited on his resignation, but lapsed during 2015 due to performance criteria not being met. Mr McDougall forfeited a further 268,970 conditional share awards, on his resignation from the Board.

*** The services of Mike Townend are covered through an agreement with IP Group plc, see note 26 to the Accounts.

Modern Water plc Incentive Plan ('MWIP')

The MWIP contains provisions relating to the making of awards in the form of options and conditional awards of ordinary shares.

a) Options

During the current year no options under the MWIP were granted, vested, exercised or lapsed for Simon Humphrey. There are vested options outstanding over 373,918 shares. However, since vesting the Company's share price has been lower than the option exercise price and accordingly these options had not been exercised at 31 December 2015. They will lapse if they remain unexercised as at 12 June 2017.

	Grant date	**Vesting date**	**Outstanding at 1 January 2015 number**	**Outstanding at 31 December 2015 number**	**Vested and exercisable at 31 December 2015 number**	**Option price**	**Charge to income statement in 2015**	**Charge to income statement in 2014**
Simon Humphrey	6.6.07	12.6.10	373,918	373,918	373,918	£1.19	£nil	£nil

b) Conditional share awards

During the current year no conditional shares were awarded to Simon Humphrey. No awards vested during the year. Awards lapsed over 150,000 shares, due to performance criteria not being met. The director's participation in conditional share awards under the MWIP is as follows:

	Award date	**Vesting date**	**Outstanding at 1 January 2015 number**	**Lapsed during the year number**	**Outstanding at 31 December 2015 number**	**Share price at award date**	**Charge to income statement in 2015**	**Charge to income statement in 2014**
Simon Humphrey	26.3.13	26.3.16	38,970	—	38,970	£0.58	£2,078	£2,078
Simon Humphrey	24.4.12	24.4.15	150,000	150,000	—	£0.55	£3,500	£10,500

The extent to which awards will vest depends on the Group's share price on the vesting date. For the conditional shares awarded on 26 March 2013 and those awarded on 24 April 2012, if the share price is £1.00 or more, on the vesting date, the award will vest in full and if the share price is £0.70 or below the award does not vest at all. If the share price is between £0.70 and £1.00 the award partially vests, on a straight line basis. Vesting of the conditional shares awarded on 24 April 2012 was also subject to a non-market performance condition.

c) Enterprise Management Incentives (EMI) Options

During the current year no options were granted, vested, lapsed or were forfeited during the year. Holdings of EMI options over ordinary shares issued through the MWIP were as follows:

	Grant date	Vesting date	Outstanding at 1 January 2015 number	Outstanding at 31 December 2015 number	Option price	Credit to income statement in 2015	Charge to income statement in 2014
Simon Humphrey	26.3.13	26.3.16	431,030	431,030	£nil	£22,816	£30,038

The options may be exercised after three years to the extent that certain market and non-market performance criteria are met. The extent to which the award will vest depends on performance against these performance criteria if these are not met the options lapse.

Vesting conditions for 196,030 of Simon Humphrey's options awarded on 26 March 2013 are that if the Company's volume weighted average share price is £1.00 or more during the first three months of 2016, the award will vest in full and if the weighted average share price is £0.70 or below the award does not vest at all. If the weighted average share price is between £0.70 and £1.00 the award partially vests, on a straight line basis.

Vesting conditions for 235,000 of Simon Humphrey's options awarded on 26 March 2013 are that if the Company's volume weighted average share price is £0.85 or more during the first three months of 2016, the award will vest in full and if the weighted average share price is £0.58 or below the award does not vest at all. If the weighted average share price is between £0.58 and £0.85 the award partially vests, on a straight line basis. In addition vesting is subject to a non-market performance condition. The credit to the income statement results from a review of non-market vesting criteria.

Options expire after 10 years and, in certain circumstances, are forfeited if the option holder leaves the Group before the options vest.

Directors' Interests

Directors' interests are detailed in the Directors' Report.

Share Price

The Modern Water plc closing share price was 7.25p on 31 December 2015. The share price high for 2015 was 20.62p and the low was 7.25p.

On behalf of the Board

Alan Wilson
Interim Chairman, Remuneration Committee
16 March 2016

Directors' Report

The directors present their Annual Report together with the audited consolidated financial statements for the year ended 31 December 2015.

Corporate Structure

The Company is incorporated in England and Wales and has subsidiaries principally incorporated in England and Wales, as well as in China, Oman and the USA.

Review of the Business and Results

A detailed review of the business is set out in the Strategic Report on pages 2 to 6. This includes comments on the financial performance and position of the Group. Information on the Group's internal control environment, including the content of reporting to the Board, is included in the Corporate Governance Statement on pages 7 to 8.

Research and Development and Future Developments

Research and Development and future developments and prospects are set out in the Strategic Report.

Dividends

The directors do not recommend the payment of a dividend (2014: £nil). At this point in the Company's development, the directors will look to invest capital in areas designed to achieve our plan for growth, although clearly this matter is kept under constant review.

Directors' Interests

The directors in office during the year and up to the date of signing the financial statements are listed below together with their beneficial interests in the share capital of the Company.

	% of issued share capital	Number of ordinary shares of 0.25p
	31 December 2015	31 December 2015
Simon Humphrey	2.30	1,832,000
Michael Gradon*	1.57	1,246,518
Robert Clarke**	0.88	700,000
Mike Townend	0.76	605,000

*Michael Gradon resigned from the Board on 31 December 2015.

**Robert Clarke resigned from the Board on 15 September 2015.

Directors' and Officers' Liability Insurance

The Group maintains liability insurance for its directors and officers. The Group has also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This provision was in place during the year and up to the date of the Annual Report and Accounts.

Corporate Governance

The Annual Report includes a separate section that describes the Group's approach to applying the principles of best practice associated with corporate governance.

Financial Instruments

The Group's financial instruments primarily comprise cash and cash equivalents. In addition, various other financial instruments such as trade receivables and trade payables arise directly from its operations. Please refer to note 3 to the Accounts for greater details of the Group's risks and policies regarding financial instruments.

Annual General Meeting

The Annual General Meeting will be held at the offices of Modern Water plc on 26 April 2016 at 10.00am.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Directors' Statement as to Disclosure of Information to Auditors

The directors who were members of the Board at the time of approving the Directors' Report are listed on page 9. Having made enquiries of fellow directors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no relevant audit information of which the Group's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

By order of the Board

Toby Schumacher
Company Secretary
16 March 2016

Statement of Directors Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Corporate Governance section of the Annual Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the directors' report contained in the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Toby Schumacher
Company Secretary
16 March 2016

Independent Auditors' Report

to the members of Modern Water plc

Report on the financial statements

Our opinion

In our opinion:

- Modern Water plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts 2015 (the "Annual Report"), comprise:

- the Group and Company Statements of Financial Position as at 31 December 2015;
- the Group Statement of Comprehensive Income for the year then ended;
- the Group and Company Statements of Cash Flows for the year then ended;
- the Group and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Stephen Wootten (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
16 March 2016

Group Statement of Comprehensive Income

for the year ended 31 December 2015

	Note	**2015 Total £000**	2014 Pre-exceptional £000	Exceptional £000	Total £000
Revenue	5	**3,232**	2,772	—	2,772
Cost of sales	5	**(2,024)**	(1,596)	—	(1,596)
Gross profit	5	**1,208**	1,176	—	1,176
Administrative expenses	8	**(4,936)**	(5,650)	(190)	(5,840)
Other gains - net	7	**18**	—	—	—
Goodwill and intangibles impairment	16	—	—	(12,590)	(12,590)
Operating loss before interest, tax, depreciation and amortisation		**(3,710)**	(4,474)	(12,780)	(17,254)
Depreciation and amortisation	8	**(527)**	(641)	—	(641)
Operating loss		**(4,237)**	(5,115)	(12,780)	(17,895)
Finance income	12	**210**	178	—	178
Finance costs	12	—	—	—	—
Loss on ordinary activities before taxation		**(4,027)**	(4,937)	(12,780)	(17,717)
Taxation	13.1	**249**	36	—	36
Loss for the year		**(3,778)**	(4,901)	(12,780)	(17,681)
Other comprehensive income					
Foreign currency translation differences on foreign operations		**(93)**	(66)	—	(66)
Total comprehensive loss for the year		**(3,871)**	(4,967)	(12,780)	(17,747)
Loss attributable to:					
Owners of the parent		**(3,778)**	(4,901)	(12,780)	(17,681)
		(3,778)	(4,901)	(12,780)	(17,681)
Total comprehensive loss attributable to:					
Owners of the parent		**(3,871)**	(4,967)	(12,780)	(17,747)
		(3,871)	(4,967)	(12,780)	(17,747)
Loss per share for the year (attributable to owners of the parent):					
Basic loss per share	14.1	**4.75p**	6.17p	16.07p	22.24p
Diluted loss per share	14.2	**4.75p**	6.17p	16.07p	22.24p

Modern Water plc has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to disclose the parent company statement of comprehensive income.

The notes on pages 21 to 44 are an integral part of these consolidated financial statements.

Group and Company Statements of Financial Position

as at 31 December 2015

		Group		Company	
		2015	2014	**2015**	2014
	Note	**£000**	£000	**£000**	£000
Assets					
Non-current assets					
Property, plant and equipment	15	**339**	444	**—**	—
Intangible assets	16	**3,647**	3,892	**—**	—
Investments	17	**—**	—	**1,628**	2,697
		3,986	4,336	**1,628**	2,697
Current assets					
Inventories	18	**1,459**	1,456	—	—
Trade and other receivables	19	**1,046**	1,654	**4,141**	6,319
Cash and cash equivalents	20	**3,161**	6,801	**2,218**	5,666
		5,666	9,911	**6,359**	11,985
Total assets		**9,652**	14,247	**7,987**	14,682
Equity and liabilities					
Equity					
Ordinary shares	24	**199**	199	**199**	199
Share premium account	24	**40,032**	40,032	**40,032**	40,032
Merger reserve		**398**	398	**398**	398
Accumulated losses		**(31,773)**	(27,958)	**(32,722)**	(26,188)
		8,856	12,671	**7,907**	14,441
Non-controlling interests		**126**	126	—	—
Total equity		**8,982**	12,797	**7,907**	14,441
Liabilities					
Non-current liabilities					
Deferred tax liabilities	13.3	**42**	198	**—**	—
Current liabilities					
Trade and other payables	21	**628**	1,252	**80**	241
		628	1,252	**80**	241
Total liabilities		**670**	1,450	**80**	241
Total equity and liabilities		**9,652**	14,247	**7,987**	14,682

The notes on pages 21 to 44 are an integral part of these consolidated financial statements.

The financial statements on pages 17 to 44 were approved by the Board of Directors on 16 March 2016 and signed on its behalf by:

Simon Humphrey
Chief Executive Officer
16 March 2016

Modern Water plc Registered number: 05963927

Group and Company Statements of Changes in Equity

for the year ended 31 December 2015

Group	Note	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 2014		**199**	**40,032**	**13,180**	**(23,181)**	**30,230**	**126**	**30,356**
Comprehensive loss								
Loss for the year		—	—	—	(17,681)	(17,681)	—	(17,681)
Impairment transfer		—	—	(12,782)	12,782	—	—	—
Foreign currency translation differences		—	—	—	(66)	(66)	—	(66)
Total comprehensive loss		—	—	(12,782)	(4,965)	(17,747)	—	(17,747)
Transactions with owners								
Share-based payments	10	—	—	—	188	188	—	188
Total transactions with owners		—	—	—	188	188	—	188
Balance as at 1 January 2015		**199**	**40,032**	**398**	**(27,958)**	**12,671**	**126**	**12,797**
Comprehensive loss								
Loss for the year		—	—	—	(3,778)	(3,778)	—	(3,778)
Foreign currency translation differences		—	—	—	(93)	(93)	—	(93)
Total comprehensive loss		—	—	—	(3,871)	(3,871)	—	(3,871)
Transactions with owners								
Share-based payments	10	—	—	—	56	56	—	56
Total transactions with owners		—	—	—	56	56	—	56
Balance as at 31 December 2015		**199**	**40,032**	**398**	**(31,773)**	**8,856**	**126**	**8,982**

Company	Note	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 2014		**199**	**40,032**	**13,180**	**(20,542)**	**32,869**	**—**	**32,869**
Comprehensive loss								
Loss and total comprehensive loss for year		—	—	—	(18,616)	(18,616)	—	(18,616)
Impairment transfer		—	—	(12,782)	12,782	—	—	—
Total comprehensive loss		—	—	(12,782)	(5,834)	(18,616)	—	(18,616)
Transactions with owners								
Share-based payments	10	—	—	—	188	188	—	188
Total transactions with owners		—	—	—	188	188	—	188
Balance as at 1 January 2015		**199**	**40,032**	**398**	**(26,188)**	**14,441**	**—**	**14,441**
Comprehensive loss								
Loss and total comprehensive loss for year		—	—	—	(6,590)	(6,590)	—	(6,590)
Total comprehensive loss		—	—	—	(6,590)	(6,590)	—	(6,590)
Transactions with owners								
Share-based payments	10	—	—	—	56	56	—	56
Total transactions with owners		—	—	—	56	56	—	56
Balance as at 31 December 2015		**199**	**40,032**	**398**	**(32,722)**	**7,907**	**—**	**7,907**

The notes on pages 21 to 44 are an integral part of these consolidated financial statements. The merger reserve resulted from the acquisitions of Surrey Aquatechnology Limited on 12 June 2007 and Cogent Environmental Limited on 2 February 2011 and represents the fair value of equity-based consideration. During the financial year 2014 the goodwill, intangible and investment assets resulting from the acquisition of Surrey Aquatechnology Limited were impaired, as a result there has been a transfer between the corresponding balance in the Merger Reserve and Accumulated Losses. The Merger Reserve balance as at 31 December 2015 relates solely to the acquisition of Cogent Environmental Limited.

Group and Company Statements of Cash Flows

for the year ended 31 December 2015

		Group		Company	
		2015	2014	**2015**	2014
	Note	**£000**	£000	**£000**	£000
Cash flows from operating activities					
Cash used in operations	25	**(3,580)**	(4,516)	**(3,475)**	(4,634)
Net cash flows used in operating activities		**(3,580)**	(4,516)	**(3,475)**	(4,634)
Cash flows from investing activities					
Purchase of property, plant and equipment	15	**(109)**	(96)	—	—
Proceeds from sale of property, plant and equipment		—	—	—	—
Purchase of patents and development costs	16	**(54)**	(76)	—	—
Interest received		**20**	50	**20**	50
Tax received		**93**	—	—	—
Net cash flows (used in)/generated from investing activities		**(50)**	(122)	**20**	50
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		—	—	—	—
Net cash flows generated from financing activities		—	—	—	—
Net (decrease) /increase in cash and cash equivalents		**(3,630)**	(4,638)	**(3,455)**	(4,584)
Cash and cash equivalents at the beginning of the year	20	**6,801**	11,432	**5,666**	10,247
Exchange gains/(losses) on bank balances		**(10)**	7	**7**	3
Cash and cash equivalents at the end of the year	20	**3,161**	6,801	**2,218**	5,666

The notes on pages 21 to 44 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information
Modern Water plc 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.

The consolidated and Company financial statements of Modern Water plc (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2015 were authorised for issue by the Board of directors on 16 March 2016 and the statement of financial position was signed by the Chief Executive Officer (Simon Humphrey).

The principal accounting policies adopted by the Group and Company are set out below.

2. Summary of significant accounting policies
The principal accounting policies have been applied consistently throughout the current and prior year, unless otherwise stated, in the preparation of these financial statements.

2.1 Basis of preparation and changes in accounting policy and disclosures
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.

The preparation of financial statements in conformity with IFRSs 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Under Section 479A of the Companies Act 2006, exemptions from an audit of the accounts for the financial year ended 31 December 2015 have been taken by Aguacure Ltd (05893786), Cymtox Limited (05025552), Modern Water Monitoring Limited (06701882), Modern Water Services Limited (06316697), MW Monitoring Limited (07495046), MW Monitoring IP Limited (07810737), Modern Water Holdings Limited (07588452), Poseidon Water Limited (04598478) and Surrey Aquatechnology Limited (05698169). As required, the Company guarantees all outstanding liabilities to which the subsidiary companies listed above are subject at the end of the financial year, until they are satisfied in full and the guarantee is enforceable against the parent undertaking by any person to whom the subsidiary companies listed above is liable in respect of those liabilities.

2.1.1 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 2014, as the result of the restructuring plan, delivering an annual net £0.9m reduction in expenditure. The Group's cash burn has reduced to £1.0m for the 6 months to the end of February 2016, and is planned to remain at this level through 2016 and 2017.

The Group's funding requirements will be met from:
- £3.2m opening cash balance;
- R&D tax credits receipts from HMRC for 2014 & 2015;
- favourable movement in the Group's working capital, specifically reduction in inventories and aged trade receivables in the Monitoring Division; and
- continued improvement in the Monitoring Division trading.

In addition Modern Water is pursuing a number of commercial opportunities, which would provide incremental positive cash inflows, the most significant of which is the joint venture between Modern Water and Northumbrian Water. In the event of these commercial opportunities not progressing through 2016/2017, the Group would need to obtain additional funding in the second half of 2017.

Notes to the Consolidated Financial Statements (continued)

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

There are no new standards, amendments or interpretations effective for the financial year beginning on 1 January 2015 which are material to the group.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not adopted early

New standards and amendments to standards and interpretations effective for annual periods beginning after 1 January 2016 have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.1.3 Parent company financial statements

Modern Water plc has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to disclose the parent company statement of comprehensive income. The loss attributed to the parent company in the year was £6,590,000 (2014 loss of: £18,616,000).

2.2 Basis of consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group 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 that are currently exercisable or convertible, are considered when assessing whether the company controls an entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred in relation to the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Joint ventures
Joint ventures are entities over which the company exercises joint control with other parties under a formal arrangement.

Investments in joint ventures are accounted for using the equity method of accounting. The cost of investment in joint ventures is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the statement of comprehensive income 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 Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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

(c) Transactions with non-controlling interests
The Group treats transactions with non-controlling interests as transactions with the equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to fair value with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

2.3 Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2.4 Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling (£), which is the Group's presentation currency and the Company's functional currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'.

(c) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

2.5 Property, plant and equipment

All property, plant and equipment is shown at cost less accumulated 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 economic life, as follows:

Leasehold improvements	–	remaining term of the lease
Plant and machinery	–	three to five years
Motor vehicles	–	three to five years
Office equipment	–	three to five years
Furniture, fixtures and fittings	–	three to five years

The assets' residual values and useful economic 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 Group and when they can be measured reliably. All other repairs and maintenance expenditure is charged to the income statement in the period in which it is incurred.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/joint venture/associate at the date of acquisition:

- goodwill on acquisitions of subsidiaries is included in 'intangible assets'; and
- goodwill on acquisitions of joint ventures is included in 'investments in joint ventures' 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. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is not subject to amortisation, but is tested for impairment annually to identify whether there have been events or a change in circumstances to 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 in Cash Generating Units (CGUs). The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Due to the pre-revenue stage of most of the Group's technologies, value in use has been assessed based on the present value of applying the Group's technologies to potential contracts in the future and an assessment of the expected number of such contracts.

(b) Patents and trademarks

Separately acquired patents are recognised at the historical cost. They have a finite useful economic life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful economic lives of 20 years from patent filing.

Trademarks are initially recorded 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 trademarks over their useful economic life of five years from filing.

(c) Research and development

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

Any internally-generated development costs are recognised as an asset 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.

Development costs identified as a result of a business combination are accounted for in accordance with IAS 38, brought on to the consolidated statement of financial position at the date of acquisition and amortised on a straight-line basis between 10 and 20 years.

Patented technology acquired as part of a business combination is recorded at the fair value on acquisition and amortised on a straight-line basis over the useful economic life of the asset.

2.7 Impairment of intangible assets, investments, property, plant and equipment

Goodwill has an indefinite useful economic life, is not subject to amortisation and is tested annually for impairment as described in notes 2.6 and 16.

Assets that are subject to amortisation or depreciation 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 (CGUs). Due to the pre-revenue stage of most of the Group's technologies, value in use has been assessed based on the present value of applying the Group's technologies to potential contracts in the future and an assessment of the expected number of such contracts.

2.8 Investments

Investments are stated at cost less any provision for impairment. Investment assets are tested annually for impairment, see note 17.

2.9 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor 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.

2.10 Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

(a) Cash and cash equivalents

Cash at bank comprises cash available on demand. Short-term deposits with a maturity from inception of one year or less placed with financial institutions are classified as cash equivalents if they can be converted to cash at any time without significant penalties.

(b) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Specific bad and doubtful debt provisions are established against trade receivables that are greater than six months overdue where management considers that there is a risk that the customer will not settle the receivable balance.

(c) Trade payables

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

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provisions, if necessary, are made for slow-moving, obsolete and defective inventories.

2.12 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Employee benefits

(a) Pension obligations

The Group has a defined contribution pension plan for directors and staff. The scheme is administered by an insurance company to which the Group pays fixed contributions and the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based payments

Share-based incentive arrangements are provided to directors and employees. The Group operates a number of share-based payment schemes under the Modern Water plc Incentive Plan (MWIP) which is described in note 10.

The fair value of the services received in exchange for the share-based payment is recognised as an expense with a corresponding credit to equity, where the payment is equity–settled, if cash settled then the cost is accrued in the balance sheet. Where equity-settled the total amount to be expensed over the vesting period is determined by reference to the fair value of the options and bonus shares granted at the date of grant using either a Black-Scholes or Monte Carlo pricing model. Where cash-settled the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the date of grant and then reassessed at each subsequent reporting date using the Black-Scholes model. The annual charge is modified to take account of awards 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.

The grant by the Company of share-based payments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2.14 Taxation

The current income tax charge is calculated on the basis of the tax laws applicable to the current year and enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, which at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, services and royalty income in the ordinary course of the Group's activities. Revenue is shown net of trade and early settlement discounts, value added tax (VAT) and similar sales taxes.

(a) Royalties

Royalty income is recognised as revenue on an accruals basis in accordance with the substance of the relevant agreements. Royalty income is therefore recognised in the year on the basis of royalty statements provided by distributors.

(b) Provision of goods and services

Revenue from the provision of goods and services is recognised when the risks and rewards of ownership have been transferred to the customer. The risks and rewards of ownership are deemed to have been transferred when the goods are delivered and the services provided to the customer. Where the customer wishes to delay taking delivery of the goods, agrees to be invoiced for the goods, and the goods are on hand ready for delivery and usual payment terms apply, transfer of the risks and rewards is deemed to occur when the goods are ready to be shipped to the customer. Goods in transit are deemed to be owned by the customer if the customer arranges transit or by the Group if the Group arranges transit. Revenue for services revenue is generally for the installation and servicing of products and the training of customer staff. Revenue for services is recognised once the service has been completed.

(c) Interest

Income is recognised as interest accrues, using the effective interest method. Interest income is included in finance income in the statement of comprehensive income.

(d) Grants

Grants are recognised when there is reasonable assurance that the entity will comply with the conditions related to them and that the grants will be received.

Grants related to income are recognised over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants relating to income are recognised as other income in the statement of comprehensive income. Unutilised grants are held in accruals and deferred income in the Group Statement of Financial Position.

Grants relating to assets are deducted from the carrying value of the asset. The statement of comprehensive income is affected by a reduced depreciation charge over the useful economic life of the asset.

2.16 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

3. Financial risk management

The Group is subject to a number of financial risks, principally market risk (interest rate risk and foreign exchange risk); credit risk; liquidity risk; and capital risk. The Group's policy aims to mitigate these risks though a conservative approach to treasury management:

(a) Market risk

(i) Interest risk

The Group's interest rate risk arises from variable interest rates on finance income and investing cash flows from the cash deposits. The Group's policy is to invest in fixed interest term deposits, thereby mitigating uncertainty over the future interest receipts. As the Group has no borrowings it only has limited interest rate risk.

(ii) Foreign exchange risk

During 2015 the majority of the Group's costs were in pounds sterling and US dollars therefore it was appropriate to hold funds in pounds sterling and US dollars. The Group does have a major supplier who invoices in Australian dollars and for these payments the Group maintains an Australian dollar bank account, purchasing Australian dollars when a commitment is certain or when there is a favourable exchange rate. In addition to sterling and US dollar accounts, the Group does maintain Australian dollar and Euro accounts for customer receipts and to hold currency to hedge against future commitments in those currencies.

(b) Credit risk

The Group is exposed to credit risk from placing significant deposits with counterparties. The Group's policy is to restrict counterparties to institutions that are Moody's A rated when the deposit is placed; ratings can change during the term of the deposit. Cash balances by counterparty credit rating are listed in note 20. Additionally the Group is exposed to credit risk from customers. This risk is mitigated in the Monitoring Division through new customers being required to pay in advance for their first purchase. Customer's seeking credit undergo a credit application process and are subject to credit limits. Accounts receivable balances are monitored and actively managed on a regular basis.

(c) Liquidity risk

The Group's liquidity risk arises from cash being on deposit with counterparties and therefore not available at short notice to meet requirements. The Group's policy is to maintain rolling cash flow forecasts and place cash on deposit with a range of maturity dates to meet forecast liquidity requirements. The maximum duration for a term deposit is 12 months from the date of deposit.

(d) Capital risk
Capital risk relates to the long term funding requirements for the Group. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. At the Group's current stage of development it is appropriate for it to be wholly funded by equity. As the Group develops, this capital structure will be reviewed.

4. Critical accounting estimates and judgements
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below:

(a) Estimated impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.6. The recoverable amounts of cash generating units (CGU) have been determined based on the higher of fair value less costs of disposal and value-in-use calculations. These calculations require the use of estimates. An impairment charge of £nil (2014: £11,902,000) was made to goodwill in 2015. Detail of the impairment tests and the key assumptions is included in note 16.

(b) Acquired intangible assets

The Group is carrying significant intangible assets (patented technology and research and development) arising from business combinations in prior years, in accordance with the accounting policy stated in note 2.6. Estimation of the fair values of intangible assets acquired through business combinations requires assumptions as to replacement cost, value, future useful economic life and future cash flows for impairment tests. There is a high degree of judgement required in making these assumptions which impact both the initial fair value acquired and the carrying value as at the balance sheet date.

(c) Share-based payments

The fair value calculation of share-based payments requires several assumptions and estimates. Their details are included in note 10. Such assumptions and estimates could change and could affect the amount recorded.

(d) Going Concern

The directors have carried out a review of forecast cash flows and have concluded that the going concern basis is justified in preparation of the financial statements. Estimates and assumptions have been used in carrying out this review.

Notes to the Consolidated Financial Statements (continued)

5. Segmental analysis

5.1 Reportable segments

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.

	2015				2014			
	Membrane £000	Monitoring £000	Central £000	Total £000	Membrane £000	Monitoring £000	Central £000	Total £000
Revenue	**10**	**3,222**	**—**	**3,232**	57	2,715	—	2,772
Cost of sales	**(38)**	**(1,986)**	**—**	**(2,024)**	(51)	(1,545)	—	(1,596)
Gross profit	**(28)**	**1,236**	**—**	**1,208**	6	1,170	—	1,176
Administrative expenses	**(1,467)**	**(1,744)**	**(1,669)**	**(4,880)**	(1,603)	(2,031)	(2,028)	(5,662)
Share-based payments	**—**	**—**	**(56)**	**(56)**	—	—	(178)	(178)
Other gains - net	**—**	**—**	**18**	**18**	—	—	—	—
Goodwill and intangibles impairment	**—**	**—**	**—**	**—**	(12,590)	—	—	(12,590)
Operating loss before interest, tax, depreciation and amortisation	**(1,495)**	**(508)**	**(1,707)**	**(3,710)**	(14,187)	(861)	(2,206)	(17,254)
Depreciation and amortisation	**—**	**—**	**(527)**	**(527)**	—	—	(641)	(641)
Operating loss	**(1,495)**	**(508)**	**(2,234)**	**(4,237)**	(14,187)	(861)	(2,847)	(17,895)
Finance income	**—**	**—**	**210**	**210**	—	—	178	178
Finance costs	**—**	**—**	**—**	**—**	—	—	—	—
Loss before taxation	**(1,495)**	**(508)**	**(2,024)**	**(4,027)**	(14,187)	(861)	(2,669)	(17,717)
Taxation	**—**	**—**	**249**	**249**	—	—	36	36
Loss for the year	**(1,495)**	**(508)**	**(1,775)**	**(3,778)**	(14,187)	(861)	(2, 633)	(17,681)

The Monitoring division recognised £3,222,000 (2014: £2,715,000) from sale of goods and services and £nil (2014: £nil) revenue from royalties. The Membrane division recognised £10,000 (2014: £57,000) from the sale of water and operating and maintenance contracts and £nil (2014: £nil) from the sale of desalination equipment.

5.2 Geographical information

The Group operates in four main geographical regions, based on customer location.

	2015			2014		
Revenue	**Membranes £000**	**Monitoring £000**	**Total £000**	Membranes £000	Monitoring £000	Total £000
Americas	**—**	**1,178**	**1,178**	—	1,187	1,187
Europe	**—**	**725**	**725**	—	686	686
Middle East and Africa	**10**	**383**	**393**	57	76	133
Asia Pacific	**—**	**936**	**936**	—	766	766
Total	**10**	**3,222**	**3,232**	57	2,715	2,772

The Group has non-current assets in four countries (2014: four), based on location of the assets.

	2015			2014		
	Property, plant and equipment £000	**Intangible assets including goodwill £000**	**Total £000**	Property, plant and equipment £000	Intangible assets including goodwill £000	Total £000
UK	**85**	**3,647**	**3,732**	135	3,892	4,027
US	**245**	**—**	**245**	294	—	294
Oman	**—**	**—**	**—**	—	—	—
Gibraltar	**9**	**—**	**9**	15	—	15
Total	**339**	**3,647**	**3,986**	444	3,892	4,336

Assets and liabilities are presented to the chief operating decision maker in a consolidated Group format. Assets and liabilities are not presented by segment.

5.3 Major customers

Within the Monitoring division revenue to one customer totalled £497,000 (2014: £512,000), representing 15% (2014: 19%) of the division's revenue. No other customer represented more than 10% of the division's revenue. All revenue in the Membrane division came from a single customer (2014: 100%).

6. Business combinations

There were no business combinations during the current or prior year.

7. Other gains - net

	2015 £000	2014 £000
Grant income	**18**	**—**
Total	**18**	**—**

The grant income relates to work performed on European Union (EU) funded electro-coagulation projects.

8. Administrative expenses by nature

	Note	**2015 £000**	2014 £000
Employee benefits expense	9	**2,573**	2,859
Share-based payments	10	**56**	178
Operating lease payments	23.1	**417**	441
Research and development		**156**	339
Auditors' remuneration	11	**103**	110
Gain on disposal of property, plant, equipment and intangible assets		**-**	109
Other administrative expenses		**1,631**	1,614
Total administrative expenses before depreciation, amortisation and exceptional charges		**4,936**	5,650
Exceptional employee benefits expense		**-**	190
Total administrative expenditure		**4,936**	5,840
Depreciation and amortisation charges	15,16	**527**	641
Goodwill and intangibles impairment		**—**	12,590
Total administrative expenses including depreciation, amortisation and exceptional charges		**5,463**	19,071

The exceptional employee benefits expense has been described in note 9.

9. Employee benefits expense

		2015		2014	
		Group	**Company**	Group	Company
	Note	**£000**	**£000**	£000	£000
Staff costs for the year, including executive directors, amounted to:					
Wages and salaries		**2,129**	**195**	2,347	362
Social security costs		**201**	**24**	237	52
Other pension costs		**94**	**14**	117	31
Other benefits and staff costs		**149**	**13**	158	11
Total employee benefits expense pre-exceptional charges		**2,573**	**246**	2,859	456
Compensation for loss of office		**-**	**-**	190	175
Total employee benefits expense		**2,573**	**246**	3,049	631
Equity-settled share-based payments	10	**56**	**(65)**	188	65
Cash-settled share-based payments	10	**—**	**—**	(10)	—
		2,629	**181**	3,227	696

Other benefits include recruitment fees, private health insurance, life insurance and income protection. Compensation for loss of office has been recorded as an exceptional item given its significance.

	2015		2014	
	Group	**Company**	Group	Company
	Number FTE	**Number FTE**	Number FTE	Number FTE
Monthly average number of employees by activity:				
Executive directors	**1**	**1**	2	2
Technical	**25**	**—**	26	—
Business development	**16**	**—**	16	—
Finance, legal and administration	**7**	**—**	8	—
Total	**49**	**1**	52	2

Key management personnel are considered to be the executive directors.

The aggregate amount of emoluments, excluding employers pension contributions, paid to the executive director (2014: executive directors) in respect of qualifying services was £142,000 (2014: £484,000). The highest paid director received £142,000 (2014: £342,000), excluding pension contributions, but including in the prior year £167,000 for compensation for loss of office. Compensation for loss of office was reported as an exceptional item of expenditure. There were no gains made by directors on the exercise of share options (2014: £nil). No money was received by directors under long term incentive schemes (2014: £nil). The executive director in total received £nil in cash bonuses relating to 2015 performance (2014: £nil). The highest paid director received no cash bonus relating to 2015 performance (2014: £nil). The Group paid £14,000 (2014: £31,000) to the executive director in respect of money purchase pension schemes, with the highest paid director receiving £14,000 (2014: £17,000). Total remuneration for non-executive directors was £97,000 (2014: £55,000). See the remuneration table on page 16 of Directors' Remuneration Report for further details.

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

Notes to the Consolidated Financial Statements (continued)

10. Share-based payment plans

	2015		2014	
	Group	**Company**	Group	Company
	£000	**£000**	£000	£000
Options (including EMI)	**36**	**(71)**	136	63
Conditional share awards	**20**	**6**	52	2
Equity-settled share-based payments	**56**	**(65)**	188	65
Cash-settled share-based payments	**—**	—	(10)	—
Total share-based payments charged to the income statement	**56**	**(65)**	178	65
Equity-settled share-based payments	**56**	**(65)**	188	65
Capital contribution relating to share-based payments	**—**	**121**	—	123
Total share-based payments changes in equity	**56**	**56**	188	188

The share-based payment plans are described below. The number of shares issued under these plans is limited to 10% of the issued ordinary share capital of the company.

The Group incurred a £56,000 (2014: £178,000) share-based payment charge of which a release of £65,000 (2014: £65,000 charge) was recognised in the Company's Statement of Comprehensive Income for its employees and a further £121,000 (2014: £123,000) to the employees of subsidiary undertakings. The credit results from a review of non-market vesting criteria. The charge for equity-settled share-based to the employees of the Company's subsidiaries payments of £121,000 (2014: £123,000) is recognised as a capital contribution in the Company balance sheet (note 17).

Modern Water plc Incentive Plan (MWIP)

The MWIP was adopted on 1 June 2007 and contains provisions relating to the making of awards in the form of options and conditional awards of ordinary shares (to be received once performance conditions are satisfied).

(a) Options

Under this scheme share options are granted to management. Certain awards are granted with an exercise price equal to the market price on the date of the grant, others at nil exercise price. The options may be exercised after three years from date of grant if certain TSR performance criteria are met. If the performance criteria are not met the options lapse. Options expire after 10 years and, in certain circumstances, are forfeited if the option holder leaves the Group before the options vest.

The movement in the number of share options is set out below:

	2015	2014
At 1 January	**1,815,877**	560,877
Granted during year	**465,000**	1,335,000
Forfeited	**(380,000)**	(80,000)
At 31 December	**1,900,877**	1,815,877

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.

Grant date	13 March 2015	10 June 2014	23 April 2014
Share price at date of award	17.13p	34.0p	29.0p
Number of shares options granted	465,000	505,000	830,000
Exercise price	£nil	34.0p	29.0p
Assumed volatility at date of award (median of historical 50 day average)	23%	29%	29%
Vesting period (years)	3.0	3.0	3.0
Expected dividend yield	0%	0%	0%
Risk-free discount rate	1.0%	1.0%	2.0%
Fair value per share awarded	17.13p	12p	10p

The weighted average remaining contractual life for the share options outstanding at 31 December 2015 is six years and six months (2014: seven years and three months). The weighted average exercise price for options outstanding at the end of the year was 51p (2014: 58p). 560,877 options were exercisable as at 31 December 2015 (2014: 560,877).

(b) Conditional share awards

The conditional share awards are provisional awards of ordinary shares in Modern Water plc, which vest three years after the date of the award to the extent that performance conditions have been met. The extent to which the award will vest depends on the Group's share price on the vesting date. If vesting criteria is not met the awards lapse. Awards expire after 10 years and, in certain circumstances, are forfeited if the option holder leaves the Group before the options vest. The movement in the number of conditional shares awarded is set out below:

	2015	2014
At 1 January	***788,970**	*1,707,940
Lapsed	**(750,000)**	(350,000)
Forfeited	**-**	(568,970)
At 31 December	**38,970**	788,970

* Shares conditionally awarded during 2012 and 2013 will vest in full if the share price is £1.00 or more on the vesting date. If the share price is £0.70 the award does not vest at all. If the share price is between £0.70 and £1.00 the award partially vests, on a straight line basis.

The fair value of the award is estimated as at the date of award using a Monte Carlo model, taking into account the terms and conditions upon which the shares were awarded.

The following table lists the inputs into the model used for the shares awarded in the year and the prior year.

Grant date	26 March 2013
Share price at date of award	58.0p
Number of options	307,940
Exercise price	£nil
Assumed volatility at date of award (median of historical 50 day average)	23%
Vesting period (years)	3.0
Expected dividend yield	0%
Risk-free discount rate	1.0%
Fair value per share awarded	16p

The weighted average remaining contractual life for the conditional share awards outstanding at 31 December 2015 is three months (2014: four months).

(c) Enterprise Management Incentives (EMI) options

Under this scheme share options are granted at nil exercise price to senior management. The options may be exercised after three years to the extent that certain market and non-market performance criteria are met. The extent to which the award will vest depends on performance against these performance criteria, if these are not met the options lapse. Options expire after 10 years and, in certain circumstances, are forfeited if the option holder leaves the Group before the options vest. The movement in the number of EMI options is set out below:

	2015	2014
At 1 January	1,997,060	2,047,060
Granted	1,040,000	100,000
Forfeited	(370,000)	(150,000)
At 31 December	2,667,060	1,997,060

The fair value of the award is estimated as at the date of award using Monte Carlo (where there are market conditions) and Black-Scholes models (where there are no market conditions), taking into account the terms and conditions upon which the shares were awarded. The weighted average fair value of EMI options granted during the year was 17.13p (2014: 29p). Inputs into the model used for the options granted in the year are below:

Grant date	13 March 2015	28 April 2014
Share price at date of award	17.13p	29.0p
Number of options	1,040,000	100,000
Exercise price	£nil	£nil
Assumed volatility at date of award (median of historical 50 day average)	23%	29%
Vesting period (years)	3.0	3.0
Expected dividend yield	0%	0%
Risk-free discount rate	1.0%	1.0%
Weighted average fair value per share awarded	17.13p	29p

(d) Cash-settled options

Under this scheme the Company grants employees the right to receive a cash award, subject to the fulfilment of certain vesting conditions, equal to the vesting date market value of the notional shares awarded to the employees.

The options may be exercised after three years to the extent that certain non-market performance criteria are met. The extent to which the award will vest depends on performance against these performance criteria, if these are not met the options lapse. Options expire after 10 years and, in certain circumstances, are forfeited if the option holder leaves the Group before the options vest.

	2015	2014
At 1 January	200,000	200,000
Forfeited	(100,000)	-
At 31 December	100,000	200,000

The fair value of the award is estimated as at the date of award using a Black-Scholes model, taking into account the terms and conditions upon which the shares were awarded. The weighted average fair value of cash-settled options granted during the year was £nil (2014: £nil).

11. Auditors' remuneration

	2015 £000	2014 £000
Audit of Company and consolidated financial statements	**72**	36
Audit of subsidiaries	**3**	45
Total audit	**75**	81
Tax compliance services	**28**	29
Services relating to taxation	**28**	29
Total non audit services	**28**	29
Total fees	**103**	110

12. Finance income and costs

	2015 £000	2014 £000
Finance income:		
Bank interest receivable	**20**	50
Gains on translation of foreign bank and intercompany balances	**190**	128
Total finance income	**210**	178
Finance costs:		
Foreign exchange losses	**-**	-
Total finance costs	**-**	-
Net finance income	**210**	178

The Company has a sterling denominated loan to Modern Water Inc, its subsidiary in the US. Movement in the sterling: US dollar exchange rate results in foreign exchange gains or losses which are recorded as finance income or cost. The US dollar strengthened during the year and consequently resulted in an exchange gain in finance income.

13. Taxation

13.1 Tax on loss on ordinary activities

	2015 £000	2014 £000
Current tax:		
Tax in respect of R&D activities	**(93)**	-
Total current tax	**(93)**	-
Deferred tax		
Origination and reversal of temporary differences	**(153)**	(26)
Impact of change in the UK tax rate	**(3)**	(10)
Total deferred tax	**(156)**	(36)
Total tax benefit	**(249)**	(36)

13.2 Reconciliation of the total tax charge

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	2015 £000	2014 £000
Loss on ordinary activities before taxation	**4,027**	17,717
Loss multiplied by the weighted average tax rate of 20.25% (2014: 21.5%)	**815**	3,809
Expenses not deductible for tax purposes	**(507)**	(2,601)
Capital allowances and other timing differences	**(31)**	(57)
Adjustments in respect of prior years	**153**	27
Re-measurement of deferred tax – changes in UK tax rate	**3**	10
Tax in respect of R&D activities	**93**	-
Losses not utilised	**(277)**	(1,152)
Tax credit	**249**	36

13.3 Deferred tax liabilities

Intangible assets in business combinations	2015 £000	2014 £000
At 1 January	**198**	234
Credited to the statement of comprehensive income	**(156)**	(36)
At 31 December	**42**	198

The deferred tax liability arises from taxable temporary differences on intangible assets recognised on business combinations and is expected to unwind over the useful economic life of these assets. The analysis of deferred tax liabilities is as follows:

	2015 £000	2014 £000
To be recovered after more than 12 months	**35**	176
To be recovered within 12 months	**7**	22
Deferred tax liabilities	**42**	198

Deferred tax assets of £5,354,000 at 31 December 2015 (31 December 2014: £5,238,000) in respect of unutilised trading losses have not been recognised, as utilisation is not yet sufficiently certain. No deferred tax assets relating to short term timing differences or depreciation in excess of capital allowances have been recognised, due to uncertainty over the timing of the recovery of these assets.

14. Loss per share

14.1 Basic

Basic loss per share (LPS) 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.

	2015	2014
Loss attributable to owners of the parent (£'000)	**3,778**	17,681
Weighted average number of ordinary shares in issue (thousands)	**79,505**	79,505
Basic loss per share	**4.75p**	22.24p

14.2 Diluted

As the Group is loss making, the diluted loss per share is equal to the basic loss per share.

15. Property, plant and equipment

Group	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Office equipment £000	Furniture, fixtures and fittings £000	Total £000
At 1 January 2014						
Cost	400	1,401	46	375	208	2,430
Accumulated depreciation	(199)	(1,176)	(33)	(273)	(154)	(1,835)
Net book amount	201	225	13	102	54	595
Year ended 31 December 2014						
Opening net book amount	201	225	13	102	54	595
Exchange differences	8	6	—	3	—	17
Additions	—	71	—	25	—	96
Disposals	—	(8)	—	—	—	(8)
Depreciation charge	(59)	(113)	(9)	(50)	(25)	(256)
Closing net book amount	150	181	4	80	29	444
At 31 December 2014						
Cost	408	1,468	46	403	208	2,533
Accumulated depreciation	(258)	(1,287)	(42)	(323)	(179)	(2,089)
Net book amount	150	181	4	80	29	444
Year ended 31 December 2015						
Opening net book amount	150	181	4	80	29	444
Exchange differences	6	6	—	2	—	14
Additions	—	99	—	10	—	109
Depreciation charge	(61)	(98)	(3)	(47)	(19)	(228)
Closing net book amount	**95**	**188**	**1**	**45**	**10**	**339**
At 31 December 2015						
Cost	422	1,580	46	409	206	2,663
Accumulated depreciation	(327)	(1,392)	(45)	(364)	(196)	(2,324)
Net book amount	**95**	**188**	**1**	**45**	**10**	**339**

There were no property, plant and equipment assets recognised in the Company's Statement of Financial Position as at 31 December 2015 (2014: none).

16. Intangible assets

Group	Goodwill £000	Patent and trademark 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 2014						
Cost	13,434	847	131	4,007	180	18,599
Accumulated amortisation	—	(232)	(131)	(1,171)	(173)	(1,707)
Net book amount	13,434	615	—	2,836	7	16,892
Year ended 31 December 2014						
Opening net book amount	13,434	615	—	2,836	7	16,892
Additions	—	76	—	—	—	76
Disposals	—	(101)	—	—	—	(101)
Impairment charge	(11,902)	—	—	(688)	—	(12,590)
Amortisation charge	—	(47)	—	(331)	(7)	(385)
Closing net book amount	**1,532**	**543**	—	**1,817**	—	**3,892**
At 31 December 2014						
Cost	13,434	923	131	4,007	180	18,675
Accumulated amortisation and impairment charge	(11,902)	(380)	(131)	(2,190)	(180)	(14,783)
Net book amount	**1,532**	**543**	**—**	**1,817**	**—**	**3,892**
Year ended 31 December 2015						
Opening net book amount	1,532	543	—	1,817	—	3,892
Additions	—	54	—	—	—	54
Amortisation charge	—	(44)	—	(255)	—	(299)
Closing net book amount	**1,532**	**553**	—	**1,562**	—	**3,647**
At 31 December 2015						
Cost	13,434	977	131	4,007	180	18,729
Accumulated amortisation and impairment charge	(11,902)	(424)	(131)	(2,445)	(180)	(15,082)
Net book amount	**1,532**	**553**	**—**	**1,562**	**—**	**3,647**

Additions to patent costs arise from legal and other fees incurred in securing patents. These are valued at the actual costs related to prosecuting the patents.

The goodwill carrying value by cash generating unit (CGU) is summarised below:

Group	**2015** £000	2014 £000
Poseidon Water Limited	**140**	140
Cymtox Limited	**629**	629
Modern Water Monitoring Limited (previously Cogent Environmental Limited)	**663**	663
AguaCure Ltd	**100**	100
Total Group goodwill	**1,532**	1,532

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

No impairment charge was made in 2015. In 2014 an impairment charge of £11,902,000 to goodwill and £688,000 to research and development costs was made to reflect uncertainty over the size and timing of contract revenue and cashflow from the Membrane division (Surrey Aquatechnology Limited). This was recorded as an exceptional item given its significance.

The goodwill impairment review indicated that the recoverable amounts for all CGUs are in excess of the carrying value. The forecasts indicate sufficient headroom between the recoverable amount and carrying value to allow for movement in the key assumptions before impairment is required. Therefore no further goodwill impairment was recorded in the year.

The recoverable amounts are determined using the higher of the CGU fair value less costs of disposal (FV) and value in use (VIU) calculations. The fair value less costs of disposal method calculates the fair value of each CGU based on the Company's share price and the selling prices of comparable businesses. The VIU method requires the estimation of future cash flows before tax and the selection of a suitable discount rate in order to calculate the present value of these cash flows. The cash flow calculations analyse the present value of applying Modern Water's patented technology to potential contracts in the future.

Modern Water is in the early commercial development stage, with the exception of the established businesses of Modern Water Inc and Modern Water Monitoring Limited, in developing markets. The Group is currently working to secure and increase revenue generating contracts in both the Membrane and Monitoring divisions. Forecast sales and profit are dependent on the size of the markets, penetration and speed of uptake. The early stage of adoption means that there remains a significant level of judgement involved in making assumptions for sales.

The key assumption for both the Cymtox Limited and Modern Water Monitoring Limited value in use calculations are the sales volumes. Management estimates the sales volume based on the current business plan, which was approved by the Board. The business plan was based on both historical sales and also future sales forecasts from customers. Discount rates of 15% and 15% respectively have been applied.

The key assumption for both Poseidon Water Limited and Aguacure Ltd value in use calculations is the securing of wastewater contracts over the next five years. Management estimate the sales volume based on the current business plan, which was approved by the Board. The business plan was based on forecasts from potential customers. A discount rate of 20% and 20% respectively has been applied.

The discount rates applied to each CGU for the value in use projections are between 15% and 20% as outlined above (2014: 15% and 20%). All assumptions have been reviewed at the end of the year and revised where necessary.

There is sufficient headroom in the above forecasts so that management believe that no reasonable change in any of the above assumptions would cause the carrying values to exceed the recoverable amounts.

There were no intangible assets recognised in the Company's Statement of Financial Position as at 31 December 2015 (2014: none).

17. Investments

Company	Investment in subsidiary £000
Year ended 31 December 2014	
Opening book amount	15,918
Capital contribution relating to share-based payments	123
Impairment charge	(13,344)
Closing book amount	**2,697**
Year ended 31 December 2015	
Opening book amount	2,697
Capital contribution relating to share-based payments	121
Impairment charge	(1,190)
Closing book amount	**1,628**

The impairment charge in 2014 is for the investment which the Company has in Surrey Aquatechnology Limited, equivalent to the impairment of goodwill and intangibles in the Group intangibles balance as described in note 16.

The impairment charge in 2015 is for the investment which the Company has in Modern Water Services Limited, for consistency with the impairment of the Surrey Aquatechnology Limited investment.

Subsidiary undertakings, which contribute to the group result	Principal activities	% Shareholding	Status
Modern Water Services Limited	Technical, business development, finance, legal and admin services to the Group companies	100	Subsidiary
Surrey Aquatechnology Limited	Desalination technology	100	Subsidiary
Modern Water Holdings Limited	Holding company for water treatment operating companies and investments	100	Subsidiary
Modern Water Technology (Shanghai) Co., Ltd	Project and operating company in China	100	Subsidiary
Modern Water Technologies LLC	Project and operating company in Oman	70	Subsidiary
MW Monitoring Limited	Holding company for monitoring instrumentation business	100	Subsidiary
Modern Water Inc	Toxicity and environmental monitoring products	100	Subsidiary
MW Monitoring IP Limited	Owners of IP for toxicity and environmental monitoring products	100	Subsidiary
Modern Water Monitoring Limited	Water and soil monitoring products	100	Subsidiary
Cymtox Limited	Toxicity monitoring applications	100	Subsidiary
Aguacure Ltd	Electro-coagulation wastewater treatment systems	100	Subsidiary
Poseidon Water Limited	Saline wastewater treatment systems	51	Subsidiary
Modern Water (Nominees) Limited	Acquisition and allocation of shares for the Group	100	Subsidiary

Modern Water Inc is a Delaware corporation. Modern Water Technologies LLC is a company registered in Oman. Modern Water Technology (Shanghai) Co., Ltd is a company registered in China. All other subsidiaries are incorporated in England and Wales. Shares held are all ordinary share capital. The Group had no investments in the current or prior year.

18. Inventories

	Group		Company	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Raw materials	**333**	273	—	—
Work in progress	**29**	33	—	—
Finished goods	**1,097**	1,150	—	—
Total inventories	**1,459**	1,456	—	—

The cost of inventories recognised as expense and included in ‘cost of sales’ amounted to £1,475,000 (2014: £1,265,000). The carrying value of inventories is net of a £245,000 provision for slow moving and obsolete inventories (2014: £104,000).

19. Trade and other receivables

	Group		Company	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Trade receivables	**568**	794	—	—
Provision	**(45)**	(44)	—	—
Trade receivables – net	**523**	750	—	—
Value added tax	**73**	43	**—**	—
Other receivables	**49**	164	**12**	8
Amounts due from subsidiary undertakings	**—**	—	**4,127**	6,303
Amounts due from non-controlling interests	**126**	126	**—**	—
Prepayments	**275**	571	**2**	8
Total trade and other receivables	**1,046**	1,654	**4,141**	6,319

Accrued income includes interest due on term deposits. The amounts due from subsidiary undertakings are unsecured, bear no interest and are repayable on demand. As at 31 December Group trade receivables of £187,000 (2014: £388,000) were past due, of which £45,000 was provided against (2014: £44,000). The ageing of these receivables is as follows:

	Group	
	2015	2014
	£000	£000
Up to 3 months past due date	**62**	216
3 to 6 months past due date	**43**	136
More than 6 months past due date	**82**	36
Trade receivables past due date	**187**	388
Trade receivables not yet due and not considered impaired	**381**	406
Total trade receivables	**568**	794

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	Group	
	2015	2014
	£000	£000
UK pound sterling	**101**	139
US dollar	**438**	623
Omani rial	**25**	25
Euro	**4**	7
	568	794

Movements on the Group's provision for impairment of trade receivables are as follows:

	Group	
	2015	2014
	£000	£000
At 1 January	**44**	43
Provision for receivables impairment	**1**	1
	45	44

The Company had no trade and other receivables past due but not impaired (2014: £nil). The directors believe that the carrying value of the Company's receivables from subsidiary undertakings is supported by their expected future cash flows.

20. Cash

20.1 Cash and cash equivalents

	Group		Company	
	2015	2014	**2015**	2014
Cash and cash equivalents	**£000**	£000	**£000**	£000
Cash at bank	**3,161**	6,801	**2,218**	5,666
Cash at bank and in hand	**3,161**	6,801	**2,218**	5,666

20.2 Credit quality of cash and cash equivalents

		Group		**Company**	
		2015	2014	**2015**	2014
Short term	Long term	**£000**	£000	**£000**	£000
P-1	AA	**3,052**	6,132	**2,206**	5,097
P-1	A	**97**	100	**—**	—
P-2	Baa	**12**	569	**12**	569
Cash at bank and in hand		**3,161**	6,801	**2,218**	5,666

The credit quality of the cash and cash equivalents is assessed using Moody's short and long term ratings.

21. Trade and other payables

	Group		Company	
	2015	2014	**2015**	2014
Current	**£000**	£000	**£000**	£000
Trade payables	**136**	360	**16**	24
Social security	**47**	57	**8**	16
Accruals and deferred income	**445**	835	**56**	201
Total trade and other payables	**628**	1,252	**80**	241

22. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below. The fair value of the assets and liabilities is equal to their carrying value.

	2015	2014
Group	**Loans and receivables**	Loans and receivables
	£000	£000
Assets as per statement of financial position		
Trade and other receivables*	**698**	1,040
Cash and cash equivalents	**3,161**	6,801
Total	**3,859**	7,841
	Financial liabilities amortised at cost	Financial liabilities amortised at cost
	£000	£000
Liabilities as per statement of financial position		
Trade and other payables**	**581**	1,195
Total	**581**	1,195

	2015	2014
Company	**Loans and receivables**	Loans and receivables
	£000	£000
Assets as per statement of financial position		
Trade and other receivables*	**4,139**	6,311
Cash and cash equivalents	**2,218**	5,666
Total	**6,357**	11,977
	Financial liabilities amortised at cost	Financial liabilities amortised at cost
	£000	£000
Liabilities as per statement of financial position		
Trade and other payables**	**72**	225
Total	**72**	225

* excludes prepayments and VAT

** includes accruals, but excludes social security

Included in the cash and cash equivalents of the Group and Company at 31 December 2015 was the equivalent of £468,000 (2014: £344,000) denominated in US dollars, £203,000 (2014: £254,000) denominated in euros, £16,000 in Omani Rials (2014: £114,000), £39,000 in Australian dollars (2014: £146,000) and £10,000 in Chinese Yen (2014: £35,000). The balance was denominated in pounds sterling (£). See note 19 for denomination of trade receivables by currency.

23. Commitments and contingencies

23.1 Group operating leases

Future aggregate minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	Group	
	2015	2014
	£000	£000
Not later than one year	**305**	331
After one year but not more than five years	**243**	458
Group operating leases	**548**	789

The Group's operating leases relate to property and office equipment, and have remaining terms up to five years. The amount recognised as an expense in the year is £417,000 (2014: £441,000). The Company does not have any operating lease commitments (2014: none).

23.2 Contractual commitments

The Group consolidates some of its purchases and as such has a contractual commitment with one supplier to place orders for goods and services. The contractual commitment for 2016 is AUS$nil (2015: AUS$2m).

23.3 Contingent liabilities

Neither the Group nor the Company had any contingent liabilities at the balance sheet date (2014: £nil).

24. Share capital and premium

	Authorised ordinary shares of 0.25p each	Allotted and fully paid ordinary shares	Authorised ordinary shares	Allotted and fully paid ordinary shares	Share premium	Total
Group and Company	Number	Number	£000	£000	£000	£000
At 1 January 2014	100,000,000	79,505,256	250	199	40,032	40,231
At 31 December 2014	100,000,000	79,505,256	250	199	40,032	40,231
At 31 December 2015	**100,000,000**	**79,505,256**	**250**	**199**	**40,032**	**40,231**

On 12 February 2013, the Company announced the conditional placing of 20,000,000 new shares of 0.25p each. The shares were admitted to trading in two tranches, on 1 March 2013 and 4 March 2013.

25. Net cash flows used in operating activities

		Group		Company	
		2015	2014	**2015**	2014
	Note	**£000**	£000	**£000**	£000
Loss on ordinary activities before taxation		**(4,027)**	(17,717)	**(6,590)**	(18,616)
Adjustments for:					
Depreciation of property, plant and equipment	15	**228**	256	**—**	—
Amortisation of intangible assets	16	**299**	385	**—**	—
Loss on disposal of property, plant, equipment and intangible assets		—	109	**—**	—
Goodwill, intangibles and investment impairment	16,17	—	12,590	**1,190**	13,344
Net finance income	12	**(210)**	(178)	**(27)**	(53)
Share-based payments	10	**56**	178	**(65)**	65
Movements in working capital:					
(Increase)/decrease in inventories	18	**27**	(382)	**—**	—
Decrease/(increase) in trade and other receivables	19	**811**	157	**2,179**	551
Increase(decrease)/ in trade and other payables	21	**(764)**	86	**(162)**	75
Cash used in operations		**(3,580)**	(4,516)	**(3,475)**	(4,634)

26. Related party transactions

IP Group plc held 20.0% of the ordinary share capital of the Company as at 31 December 2015 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 year were £40,000 (2014: £30,000) and as at 31 December 2015 £7,500 (2014: £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, but require disclosure in the Company accounts.

An agreement dated 30 November 2006 was made between the Company and Surrey Aquatechnology Limited for the provision of administrative services for fees of £6,000 per annum. At 31 December 2015, fees of £6,000 (2014: £6,000) were outstanding under this agreement.

An agreement dated 14 December 2006 was made between the Company and Cymtox Limited for the provision of administrative services for fees of £14,463 per annum. At 31 December 2015, fees of £14,000 (2014: £14,000) were outstanding under this agreement.

An agreement dated 14 December 2006 was made between the Company and Poseidon Water Limited for the provision of administrative services for fees of £50,760 per annum. At 31 December 2015, fees of £55,000 (2014: £55,000) were outstanding under this agreement.

Additionally the Company had receivable balances at 31 December 2015 with its subsidiary companies to fund working capital and acquisition of investments as follows:

- Modern Water Services Limited – £22,003,000 (2014: £19,653,000). This has been fully provided against as at 31 December 2015;
- Surrey Aquatechnology Limited – £1,320,000 (2014: £1,249,000). This has been fully provided against as at 31 December 2015;
- MW Monitoring Limited - £5,008,000 (2014: £5,001,000). A provision of £2,500,000 has been made against this balance.
- Modern Water Monitoring Limited – £2,996,000 (2014: £2,964,000). This has been fully provided against as at 31 December 2015;
- Cymtox Limited – £740,000 (2014: £650,000);
- AguaCure Ltd – £185,000 (2014: £184,000);
- Poseidon Water Limited – £178,000 (2014: £112,000);
- Modern Water Holdings Limited – £516,000 (2014: £287,000).

ADVISERS

Registered office
Bramley House
The Guildway
Old Portsmouth Road
Guildford
Surrey
GU3 1LR

Company number
Registered in England and Wales, number 5963927

Further details can be found on the Modern Water website: ***www.modernwater.com***

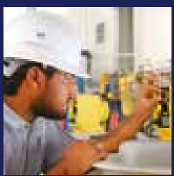
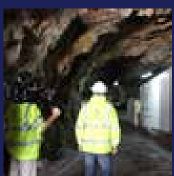
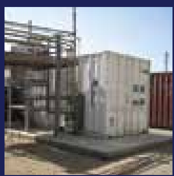
Directors
Alan Wilson (Non-executive Chairman)
Simon Humphrey (Chief Executive Officer)
Mike Townend (Non-executive Director)
Toby Schumacher (General Counsel & Company Secretary)

Nominated adviser and broker
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

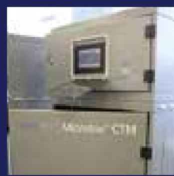
Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Portland Building
25 High Street
Crawley
West Sussex
RH10 1BG

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Principal bankers
HSBC Bank plc
HSBC House
Mitchell Way
Southampton
Hampshire
SO18 2XU






MODERNWATER

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