

29th September 2006

Hydrodec Group plc

Interim Results

Hydrodec Group plc (AIM:HYR) today announces Interim Results for the six months ended 30 June 2006.

Highlights

Operational:

- Completed construction and opened the 20,000 litre per day refining facility at Young, New South Wales on schedule
- Secured significant orders for *Superfine[™]* from South Australian utility and others
- Appointed US Vice President and targeting operations in US in 2008
- Strong results from *Superfine[™]* testing by SD Myers and Doble Engineering in the US

Financial:

- Revenues: £413,302 (2005: nil)
- Net operating loss £1,149,457 (2005: £682,893)
- Net assets £10,880,046 (2005: £10,123,406)

Hydrodec Chairman John Gunn said:

“We have made rapid progress in the period in raising levels of awareness of the quality of our Superfine product and have seen corresponding growth in demand from key clients in the Australian transformer oil market.

“The foundations we have established over the past six months have seen Hydrodec move from an innovative technology to a revenue generating business. As take up of Superfine continues and progress into the lucrative American market is made, I look forward to reporting further progress to you in the near future.”

For further information please contact:-

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Chairman's Statement

The first half of 2006 has seen significant developments in the commercialisation of Hydrodec's technology. On 24 April the commissioning of the 20,000 litre per day refining facility in Young, New South Wales was completed. During the construction of the plant, significant progress was made to create market awareness and understanding of *Superfine[™]* oil within the transformer oil industry.

In March 2006 TransGrid, the New South Wales power transmission authority, issued a standing purchase order stating Hydrodec is now qualified to treat its used low-level and high-level PCB contaminated transformers and associated equipment. Additionally, significant purchase orders for *Superfine[™]* were received, including the treatment and refining of 230,000 litres of low level PCB contaminated transformer for a South Australian Utility and agreement to supply more than 200,000 litres of oil for refining from SP AusNet of Victoria.

Superfine[™] orders also came from a New South Wales utility and a service company in Southern Australia for transformer retro-fills. Bulk shipment of *Superfine[™]* commenced in late August 2006. Whilst the orders are relatively small in terms of financial impact, the rapid and increasing take up and the market acceptance of *Superfine[™]* is extremely encouraging.

This was underlined by the announcement on 8 August (following the period covered by these accounts) that written acceptance had been received from a leading Australian transformer manufacturer, and conditional acceptance from at least one other, along with major transformer purchasers, for bulk supply of *Superfine[™]* in new transformers. It is anticipated these orders will continue to grow as *Superfine[™]* gains market penetration. The new contracts are underpinned by additional used oil feedstock supply commitments from major utility companies, which commenced in July 2006.

Whilst the initial focus is on the Australian market, Hydrodec's technology has global applications, and a key market for the future will be the USA. In February 2006, the Company announced the appointment of John Cowan as Executive Vice President North American Operations. John has more than 25 years experience in the environmental technology and treatment industries in the US and Australia.

Hydrodec is continuing negotiations with US transformer services and transformer oil management companies for the establishment of a Hydrodec oil refining technology in North America. The Company is targeting commencement of oil refining operations in North America in early 2008. A key step in achieving this occurred on 24 April 2006 when Hydrodec received the results of independent testing of *Superfine[™]* by SD Myers and Doble Engineering laboratories in the USA. The independent report concluded that *Superfine[™]* is "a high quality mineral insulating oil meeting industry standards". In particular *Superfine[™]* proved to have excellent oxidation stability and very good corrosive sulphur results when evaluated against extended corrosive sulphur test regimes.

Continued national and international government action, corporate activity and public awareness illustrate the increasing profile and importance of the green industry to the global economy. Hydrodec is at the forefront of sustainable environmental technology and, in a short space of time, has made tremendous commercial progress. *Superfine[™]* is progressively securing international technical acceptance and continues to increase its market penetration of the Australian transformer oil market.

Hydrodec has moved from an innovative technology to a revenue generating business and as take up of *Superfine[™]* continues and progress into the lucrative American market is made, I look forward to reporting further progress to you in the near future.

John Gunn
Non-executive Chairman

About Hydrodec:

Hydrodec's technology is a modified oil refining process. It utilises an advanced form of catalytic hydrogenation, and is based upon packed bed hydrogenation processes, together with patented intellectual property that prevents the deactivation of the catalyst. This means that a variety of Persistent Organics Pollutants or POP's can be treated in an environmentally safe, zero-emission process with no direct air emissions.

The technology can be applied to a number of oils, but the initial market that has been targeted is the treatment of transformer oil. Transformer oil that has been re-refined through the Hydrodec process is sold as *Superfine[™]* oil.

CONSOLIDATED PROFIT AND LOSS

	(Unaudited) 6 months ended 30 June 2006	(Unaudited) 6 months ended 30 June 2005
Note	£	£
Turnover	413,302	-
Cost of sales	<u>(164,849)</u>	-
Gross profit	248,453	-
Administrative expenses	<u>(1,397,910)</u>	(682,893)
Operating loss	(1,149,457)	(682,893)
Share of loss of associate	-	(54,934)
Interest receivable	<u>53,928</u>	31,992
Loss on ordinary activities before and after taxation	<u>(1,095,529)</u>	(705,835)
Loss retained for the period	<u>(1,095,529)</u>	(705,835)
Loss per share		
Basic	4 <u><u>(0.61)p</u></u>	<u><u>(0.45)p</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	(Unaudited) 6 months ended 30 June 2006	(Unaudited) 6 months ended 31 June 2005
	£	£
Loss for the financial period	(1,095,529)	(705,835)
Currency differences	<u>(159,611)</u>	(14,999)
Total recognised losses	<u><u>(1,255,140)</u></u>	<u><u>(720,834)</u></u>

CONSOLIDATED BALANCE SHEET

	(Unaudited) As at 30 June 2006	(Unaudited) As at 30 June 2005
Note	£	£
Fixed assets		
Intangible	6 7,079,403	7,669,353
Tangible assets	<u>3,450,036</u>	<u>378,901</u>
	<u>10,529,439</u>	<u>8,048,254</u>
Current assets		
Debtors	375,116	136,804
Cash at bank and in hand	<u>493,257</u>	<u>2,210,150</u>
	<u>868,373</u>	<u>2,346,954</u>
Creditors: amounts falling due within one year	<u>(376,054)</u>	<u>(271,802)</u>
Net current assets	<u>492,319</u>	<u>2,075,152</u>
Creditors: amounts falling due after one year	<u>(141,712)</u>	<u>-</u>
Total assets less current liabilities	<u>10,880,046</u>	<u>10,123,406</u>
Capital and reserves		
Called up share capital	893,227	782,500
Share premium account	15,325,306	10,065,050
Share options reserve	1,913,889	-
Foreign exchange reserve	(163,473)	-
Profit and loss account	<u>(7,088,903)</u>	<u>(724,144)</u>
Equity shareholders' funds	7 <u>10,880,046</u>	<u>10,123,406</u>

CASH FLOW STATEMENT

		(Unaudited) 6 months ended 30 June 2006	(Unaudited) 6 months ended 30 June 2005
	Note	£	£
Net cash (outflow)/inflow from operating activities	8	(1,540,082)	(652,336)
Returns on investments and servicing of finance			
Interest received		53,928	340
Taxation		-	-
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,353,818)	(99,683)
Financing			
Issue of new shares		72,617	-
Share issue costs			(52,434)
(Decrease)/increase in cash	9	<u>(2,767,355)</u>	<u>(804,113)</u>

NOTES TO THE INTERIM REPORT

1 BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 31 December 2005 annual report and financial statements. The interim financial statements have not been reviewed by the Group's auditors.

2 PUBLICATION OF NON-STATUTORY ACCOUNTS

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

3 TAXATION

There is no tax charge for the interim period.

4 EARNINGS PER SHARE

	6 months ended 30 June 2006 £	6 months ended 30 June 2005 £
Loss for the financial period	<u>1,095,529</u>	<u>705,835</u>
	Number of shares	Number of shares
Weighted average number of shares in issue	<u>178,645,402</u>	<u>156,500,000</u>
For basic earnings per share	<u>(0.61)p</u>	<u>(0.45)p</u>

5 DIVIDENDS

No dividends have been paid or proposed for the period.

6 INTANGIBLE FIXED ASSETS

	(Unaudited) £
<i>Cost</i>	
At 31 December 2005 and 30 June 2006	<u>7,866,003</u>
<i>Amortisation</i>	
At 31 December 2005	524,400
Charge for the period	262,200
At 30 June 2006	<u>786,600</u>
<i>Net book value</i>	
At 30 June 2006	<u>7,079,403</u>
At 31 December 2005	<u>7,341,603</u>

The goodwill arises on the acquisition of Hydrodec Development Corporation Pty Limited and is being amortised over its estimated useful life of 15 years.

7 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	(Unaudited) 6 months ended 30 June 2006 £	(Unaudited) 6 months ended 30 June 2005 £
Loss for the financial period	(1,095,529)	(705,835)
Share issue costs	-	(52,434)
Currency transaction differences	(159,611)	(14,999)
	<u>(1,255,140)</u>	<u>(773,268)</u>
Opening shareholders' funds	<u>12,135,186</u>	10,896,674
Closing shareholders' funds	<u>10,880,046</u>	<u>10,123,406</u>

8 NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	(Unaudited) 6 months ended 30 June 2006	(Unaudited) 6 months ended 30 June 2005
	£	£
Operating loss	(1,149,457)	(682,893)
Depreciation	13,262	14,013
Amortisation of goodwill	262,200	196,650
(Increase) in debtors	(119,496)	(86,270)
Decrease in inventories	2,526	-
(Decrease) in creditors	(422,308)	(93,836)
Increase in employee entitlements	32,802	-
Movement in Foreign Exchange	(159,611)	-
Net cash (outflow)/inflow from operating activities	<u>(1,540,082)</u>	<u>(652,336)</u>

9 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	(Unaudited) 6 months ended 30 June 2006	(Unaudited) 6 months ended 30 June 2005
	£	£
(Decrease)/increase in cash in the period	(2,767,355)	(804,113)
Net funds at the beginning of the period	<u>3,260,612</u>	<u>3,014,263</u>
Net funds at the end of the period	<u>493,257</u>	<u>2,210,150</u>