

Hydrodec Group plc

Hydrodec Group plc announces its audited preliminary results for the year ended 31 December 2007.

Highlights:

- Net operating cash outflow decreased to £0.6 million from an outflow of £2.1 million in 2006. Net assets rose to £20.8 million (2006: £11.0 million), including cash balances of £12.1 million (2006: £0.9 million)
- The Group successfully raised £13.8 million via a convertible loan note issue. The funds from this issue are being utilised to finance the construction of two Hydrodec plants in the US
- Agreement with the major transformer manufacturer, Schneider Electric, in Australia to allocate up to 75% of its annual new transformer oil purchase in Australia, to Hydrodec. This is an uptake of 3,000 litre per day that represents greater than 15% of Hydrodec's Australian production capacity
- Approval to use Superfine™ by the two largest electricity companies in Victoria and Queensland, the largest electricity distributor in New South Wales and a major South Australian distribution utility. These combine approvals represent demand in the order of 40% of Hydrodec's Australian production capacity
- Hydrodec's acceptance into the Australian Oil Product Stewardship Programme entitling Hydrodec to receive a subsidy against the cost of refining oil. This payment of up to \$0.50 per litre is in addition to normal sales revenues for each litre of Superfine™ transformer oil produced within Australia
- Major export order for distribution of Superfine™ in Turkey from the Young plant in Australia. Approximate supply of 2,400,000 litres per annum of Superfine™ transformer oil
- Construction of Hydrodec's first plant in the US at Canton, Ohio commenced during the year. This facility is expected to become operational early in the second half of 2008.
- Received planning approval for the second US plant in Laurel, Mississippi
- Investigation in to new markets including Japan and Europe. Expectation that before the end of 2008 a secure plan for start up in Japan will be in place
- Appointment of John Dickson as Finance Director of Hydrodec

Following the year end:

- In February 2008, Hydrodec announced that the first feedstock oil of 20,000 US gallons (75,000 litres) was received at the new plant in Canton Ohio from Power Asset Recovery Corp, a local Canton, Ohio transformer service and trading company
- Hydrodec also announced that it had reached price agreement with, and secured a conditional commitment from one of the largest transformer oil buyers in the USA, to purchase more than 50% of the maximum production capacity of the new Canton, Ohio plant plus a firm expression of interest in increasing purchase quantities upon commissioning of the Laurel, Mississippi plant

John Gunn, Chairman commented

“2007 has seen many significant developments for Hydrodec. The Young plant in Australia is now a commercial operation and it is encouraging to see the support from the local utilities industry which has great confidence in Superfine™. The order from Turkey represents a significant milestone both as our first export order and also as a demonstration of the worldwide acceptance of Hydrodec's technology. The commitment of one of the US's largest transformer manufacturer to purchase 50% of the capacity of Canton's production marks a significant start to our

activities in the US and clearly endorses Superfine™. In the light of this, Hydrodec is now looking to expand its production capacity substantially over and above its current operations in Australia and the US. Hydrodec have received significant levels of interests from the Japanese and European markets which we are actively pursuing.

With these positive moves, it is clear that Hydrodec's sustainable technology is offering global customers a tangible and realistic alternative to the use of traditionally refined, new transformer oil. It offers a secure price and guaranteed supply of oil in environmentally sound continuous life cycle which benefits the utility, transformer manufacturer, the public and the environment."

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CHAIRMAN'S STATEMENT

I am pleased to present Hydrodec's accounts for the year ended 31 December 2007. Hydrodec's technology is an oil refining process that produces new speciality oils, using spent transformer oil as the primary feedstock. The process also removes dangerous contaminants such as PCB's from oil and similar fluids. The technology can be applied to many speciality oils, but initially the Company is concentrating on the transformer oil industry. Old transformer oil that has been refined through the Hydrodec process becomes Superfine™ transformer oil.

2007 has seen positive development of the Hydrodec Group. The Australian operations have generated enormous interest and profile within the transformer industry and as a result of this interest, long-term agreements are now in place with Australian utility companies. In addition the Australian plant has contracted and is supplying an estimated 2.4 million litres per annum to a Turkish trader supplying Turkey based international transformer manufacturers. In early 2008 the Australian operation is approaching month to month sales at 100% of available physical capacity. The Company has also made great progress in the US with the construction of the Canton, Ohio plant and at its second chosen location in the US in Laurel, Mississippi, planning consent has been received. There are already advanced commitments from one of the US's largest transformer oil buyers for both Ohio and for Mississippi as each plant, in turn, becomes fully operational.

Year ended 31 December 2007 results

Turnover for the year increased approximately 120% to £1,851,676 (2006: £844,867), with the overall operating loss reduced by 19% to £2,280,863 (2006: £2,864,826). The operating loss includes £1,153,275 (2006: £970,858) of non-cash items due to the granting of options during the year, depreciation and the amortization of the Hydrodec technology, leaving a net operating cash outflow of £642,131 (2006: £2,104,640). Net assets rose to £21,486,209 (2006: £10,963,311), including cash balances of £12,129,184 (2006: £891,913).

In November 2007, the group issued a £13.8m convertible loan note to finance the construction of production facilities in the United States of America. The loan is convertible at the loan note holders' option into ordinary share capital of the company at a fixed price of 19p per share at any time between April 2008 and November 2012. Any loan notes which are not converted into shares by this date are repayable in one amount in August 2014. Interest is charged at a fixed rate of 8% per annum on the nominal value of the unconverted loan.

Business developments

The refining plant in Young, New South Wales has, during the year, demonstrated process capacity in excess of its theoretical 20,000 litres per day capacity and in first quarter 2008 forward sales from this plant are approaching 100% of theoretical monthly physical capacity. Sales are derived from a number of long term commitments including supplying approximately 2.4 million litres per annum to Ceyhan Petrokimya Sanayi ve Ticaret Ltd Sti in Turkey, a trader supplying Turkish based transformer manufacturers. The first shipment has been received in Turkey and the feedback has been extremely favourable.

Superfine™ is continuing to receive considerable support from the Australian transformer industry. This includes an agreement with Schneider Electric, a key manufacturer of distribution transformers which supplies major power utilities across the country. Schneider have targeted conditional allocation of up to 75% of its annual new transformer oil purchase in Australia to Superfine™. This is an uptake of 3,000 litres of Superfine™ per day that represents approximately 15% of Hydrodec's production capacity in Australia.

In addition Australian power utilities including, the two largest electricity distribution companies in Victoria and Queensland, the largest electricity distributor in NSW and a major South Australian distribution utility have approved Superfine™ transformer oil for use in their new transformers. These combined approvals represent demand in the order of 40% of Hydrodec's Australian production capacity.

The market feedback for Superfine™ in the USA is very positive and the recently announced purchase commitment by one of the largest transformer oil purchaser's in the US supports our expansion plans and shows the confidence of the US power industry in Hydrodec's Superfine™ product. This commitment is for the purchase of greater than 50% of the maximum production capacity of the new Canton, Ohio plant plus a firm expression of interest in increasing purchase quantities upon commissioning of the Laurel, Mississippi plant. Further significant sales commitments are expected in the coming weeks.

The Canton, Ohio plant received its first feedstock at the end of February 2008 and we expect the plant to be fully operational early in the second half of 2008. Planning permission has been granted for Laurel in Mississippi with commercial operations commencing conservatively in Q3 2009. Both plants are currently funded and each has a minimum production capacity in excess of 80,000 litres of Superfine™ transformer oil per day. Once operating, these plants will represent a ten fold increase of Hydrodec's existing Superfine™ production capacity, particularly in light of early planning of the Laurel Mississippi plant that indicates a possible production capacity of 120,000 litres per day for an approximately similar capital investment to that required for establishment of the Canton, Ohio facility.

This multiplying of production capacity through expansion to the US will have significant financial benefits for the company and will give Hydrodec the economic and industry credibility to consider other major markets for transformer oils around the world.

Technological developments

Industry testing of Hydrodec's Superfine™ transformer oil has continued to deliver extraordinarily positive results. During the year independent utility testing of Superfine™'s performance against the power industry key technical parameters of oxidation stability, induction point and corrosive sulphur again showed Hydrodec's product to be superior to most, if not all, currently available equivalent mineral transformer oils.

Continuous development and engineering improvement systems within Hydrodec have also resulted in internal development of operating systems and processes and equipment designs that capture unique and new knowledge of the company. For example, during 2007, Hydrodec developed for its Young Australia and Canton Ohio facilities integrated automatic filtering and drying systems for oil. These package units have been manufactured in Australia for export to the USA for use in the Canton plant. Versions of the Hydrodec design have now attracted the interest of others in the power industry and Hydrodec is considering acceptance of external orders for commercial fabrication and delivery of multiple filtering and drying units for commercial customers in the power industry.

Research and development

As well as securing new markets for Superfine™ transformer oil, Hydrodec is also developing new refining technologies.

The treatment of other specialty oils for recycling e.g. hydraulic oils, is being evaluated at the request of major producers and users in this sector. The market opportunity for Hydrodec in these areas is many times the size of the transformer oil market. Hydrodec expects that a conclusion on the viability of these market sectors will be resolved within twelve months.

In addition to extending the technology in other oil products, applications in the specialty petrochemical industry also remain under investigation. In 2007 further evaluation of applications for the Hydrodec technology in the hazardous petrochemical by-products area were successfully completed. Opportunity continues to exist in this market.

Operational Capacity

Hydrodec's capacity, knowledge and skills are embodied in the Company's staff and systems. Bringing the Young NSW facility to fully functioning commercial operation and nearing completion and start up of the Canton, Ohio plant has seen steady growth in functional staff resources, the company's knowledge and intellectual property base and the basic capacity required to manage and grow the company consistent with the strategic plan. The company's strategic planning process treats recruitment, succession, capacity and knowledge as fundamental to our success, to risk management and to growth potential.

In particular, late in 2007 we welcomed John Dickson to the Hydrodec team as Finance Director. John's commencement with the Group signals confidence in our continued and accelerated growth, and, a step up in our forward planning and financial capabilities to match our enlarged and growing base of operations. John's commencement with the Group also coincided with successful negotiation of the contract to export Superfine oil from Australia to Turkey. These two key events catalysed the re-organisation of Hydrodec into a structure supportive of the company becoming a global transformer (and ideally other specialty) oil producer. The Company has established an organisational platform for growth that will encourage the recruitment and integration of new resources as necessary to support expansion of the company's capacities consistent with market demand.

During 2007 construction of the plant in Canton, Ohio was substantially progressed and this newest Hydrodec facility is expected to become operational ahead of schedule and potentially under budget. Our success with bringing the Canton Plant to physical completion and our progress in recruiting and training staff for this facility is also contributing to the continued expansion of the human and knowledge base necessary for Hydrodec to achieve its growth objectives.

The future

Throughout 2007 we have seen increasing global interest in Hydrodec and we have been investigating new markets for Superfine™ transformer oil. Near term markets now include Japan and Europe.

During 2007 Corp8, a Japan based business planning and development group, were mandated to introduce the Hydrodec business to Japan with the aim of identifying prospective partners and securing sufficient pre-sales interest to underpin investment decisions for the Japanese market. Corp8 have made much progress. The company has validated market data that confirms the clear competitiveness of the Hydrodec model in the Japanese market and has further secured interest from key market players, industry groups and relevant government ministries. Visits to the Australian plant by key Japanese parties commence in March 2008 and Hydrodec expects that well before end of 2008 a secure plan for start up in Japan will be in place. The company further expects that the Japanese market will comfortably support a Hydrodec production capacity in excess of 160,000 litres per day, that is, double the capacity planned for start up in Canton, Ohio in the near future.

Our contract with Ceyhan Petrokimya Sanayi ve Ticaret Ltd Sti in Turkey has opened up a potential new market for us in Europe. Turkey is a centre of concentration for the manufacture of transformers in Europe and consequently is a primary consumer of transformer oil. A number of well-known global companies operate transformer manufacturing facilities in Turkey and Hydrodec is investigating scope for growth in Europe through Turkey. The

Company expects clarification of the opportunity to access the EU market for transformer oil through Turkey before end 2008. Hydrodec's refining technology continues to be, with respect to recovery efficiencies, the industry leading process for refining used mineral oils. This provides Hydrodec with unmatched economic and sustainability advantages. The outlook for the company is bright and improving and we believe that Hydrodec is now well placed for a period of rapid expansion.

Many thanks go, on your behalf, to the staff and management for their first class performance in 2007, which has enabled this excellent progress. We expect further significant growth to come in 2008 and the years thereafter.

John Gunn
Non-executive Chairman

HYDRODEC GROUP PLC

CONSOLIDATED SUMMARISED INCOME STATEMENT (UNAUDITED)

For the year ended 31 DECEMBER 2007

	Note	2007 £	2006 £
Revenue		1,851,676	844,867
Cost of sales		<u>(470,792)</u>	<u>(411,818)</u>
Gross profit		1,380,884	433,049
Administrative expenses		<u>(3,526,006)</u>	<u>(3,297,875)</u>
Operating loss		(2,145,122)	(2,864,826)
Interest receivable		150,707	60,932
Interest payable		<u>(286,448)</u>	<u>(8,990)</u>
Loss on ordinary activities before taxation		(2,280,863)	(2,812,884)
Tax on loss on ordinary activities		<u>-</u>	<u>-</u>
Loss for the period		<u>(2,280,863)</u>	<u>(2,812,884)</u>
Loss per share - basic and diluted	2	<u>(1.20p)</u>	<u>(1.56p)</u>

All transactions arise from continuing operations.

The accompanying accounting policies and notes form an integral part of these financial statements.

HYDRODEC GROUP PLC

CONSOLIDATED SUMMARISED INCOME STATEMENT (UNAUDITED)

For the year ended 31 DECEMBER 2007

	2007 £	2006 £
Non-current assets		
Property, plant and equipment	6,751,538	3,620,343
Intangible assets	6,292,803	6,817,203
	<u>13,044,341</u>	<u>10,437,546</u>
Current assets		
Trade and other receivables	747,954	184,612
Inventories	155,990	75,361
Cash and cash equivalents	12,129,184	945,938
	<u>13,033,128</u>	<u>1,205,911</u>
Current liabilities		
Trade and other payables	(1,194,268)	(418,840)
Net current assets	<u>11,838,860</u>	<u>787,071</u>
Non-current liabilities	<u>(4,050,977)</u>	<u>(261,306)</u>
	<u>20,832,224</u>	<u>10,963,311</u>
Capital and reserves		
Called up share capital	969,227	923,227
Share premium account	19,029,306	16,891,306
Equity reserve	9,573,900	-
Share options reserve	2,477,389	2,140,052
Profit and loss account	(11,087,121)	(8,806,258)
Foreign exchange reserve	153,614	(185,016)
Employee benefit trust	(284,091)	-
Total equity	<u>20,832,224</u>	<u>10,963,311</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

HYDRODEC GROUP PLC

CONSOLIDATED SUMMARISED CASH FLOW STATEMENT (UNAUDITED)

For the year ended 31 DECEMBER 2007

	2007 £	2006 £
Cashflows from operating activities		
Operating loss	(2,145,122)	(2,812,884)
Depreciation	291,538	220,295
Loss on disposal of property, plant and equipment	-	44,845
Amortisation of other intangible assets	524,400	524,400
Finance costs	(51,448)	(51,942)
Share based payment expense	337,337	226,163
Foreign exchange movement	338,630	(73,843)
Increase in inventories	(80,269)	(20,927)
(Increase)/decrease in amounts receivable	(501,947)	19,100
Increase/(decrease) in amounts payable	645,110	(179,847)
Net cash outflow from operating activities	(642,131)	(2,104,640)
Cashflows from investing activities		
Purchase of property plant and equipment	(3,172,733)	(1,683,314)
Finance lease interest paid	-	(8,990)
Bank interest and other income received	89,312	60,932
Net cash outflow from investing activities	3,083,421	(1,631,372)
Cashflows from financing activities		
Issue of new shares	2,300,000	1,680,000
Costs of share issue	(116,000)	(84,000)
Purchase of share capital	(281,250)	-
Issue of convertible loan stock	13,800,000	-
Costs of convertible loan stock issue	(578,350)	-
Repayment of lease liabilities	(161,577)	(129,404)
Net cash inflow from financing	14,962,823	1,466,596
Increase/(decrease) in cash and cash equivalents	11,237,271	(2,269,416)
Movement in net cash		
Cash	945,938	3,161,329
Bank overdraft	(54,025)	-
Opening cash and cash equivalents	891,913	3,161,329
Increase/(decrease) in cash and cash equivalents	11,237,271	(2,269,416)
Closing cash and cash equivalents	12,129,184	891,913

The accompanying accounting policies and notes form an integral part of these financial statements.

HYDRODEC GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the year ended 31 DECEMBER 2007

	Share capital £	Share premium £	Equity reserve £	Foreign exchange reserve £	Profit and loss account £	Share option reserve £	Employee benefit trust £	Total £
At 1 January 2006	893,227	15,325,306	-	(3,862)	(5,993,374)	1,913,889	-	12,135,186
Exchange differences on translation of foreign operations	-	-	-	(181,154)	-	-	-	(181,154)
Net income recognised directly in equity	-	-	-	(181,154)	-	-	-	(181,154)
Loss for the period	-	-	-	-	(2,812,884)	-	-	(2,812,884)
Total recognised income for the year	-	-	-	-	(2,812,884)	-	-	(2,812,884)
Recognition of share-based payment	-	-	-	-	-	226,163	-	226,163
Issue of shares	30,000	1,650,000	-	-	-	-	-	1,680,000
Issue costs	-	(84,000)	-	-	-	-	-	(84,000)
At 31 December 2006	923,227	16,891,306	-	(185,016)	(8,806,258)	2,140,052	-	10,963,311
Exchange differences on translation of foreign operations	-	-	-	338,630	-	-	-	338,630
Net income recognised directly in equity	-	-	-	338,630	-	-	-	338,630
Loss for the period	-	-	-	-	(2,280,863)	-	-	(2,280,863)
Recognition of share-based payment	-	-	-	-	-	337,337	-	337,337
Issue of shares	46,000	2,254,000	-	-	-	-	-	2,300,000
Issue of convertible loan	-	-	9,952,696	-	-	-	-	9,952,696
Issue costs	-	(116,000)	(418,796)	-	-	-	-	(534,796)
Purchase of shares	-	-	-	-	-	-	(284,091)	(284,091)
At 31 December 2007	969,227	19,029,306	9,573,900	153,614	(11,087,121)	2,477,389	(284,091)	20,832,224

The accompanying accounting policies and notes form an integral part of these financial statements.

HYDRODEC GROUP PLC

NOTE TO COMPANY BALANCE SHEET AT 31 DECEMBER 2007

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

The preliminary result statement has been prepared on the basis of the same accounting policies as those set out in the financial statements for the year ended 31 December 2006. These summarised consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU under the historical cost convention. They are presented in sterling, which is the functional currency of the group because the significant events of the current and prior period occurred in sterling.

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2 LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The weighted average number of shares used in the calculations are set out below:

2007	2006
Number of shares	Number of shares
<u>189,725,620</u>	<u>179,944,032</u>

In 2006 and 2007, the share options were anti-dilutive and consequently no diluted earnings per share figure is included.

3 ANNUAL REPORT

Copies of the annual report and accounts will be sent to shareholders in the near future and will be obtainable from the Company's head office at the 6th Floor, 80 Cannon Street, London. EC4N 6HL.

4 STATUS OF THIS REPORT

The preliminary results for the year ended 31 December 2007 are unaudited. The financial information included in this statement does not constitute the Group's statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2007 will be finalised on the basis of the financial information presented by the directors in the preliminary announcement and will be delivered to the Registrar of Companies in due course.

The information given as the comparative figures for the year ended 31 December 2006 does not constitute the Group's statutory accounts for this financial year. Statutory accounts for the year ended 31 December 2006, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under Section 237 (2) and (3) of the Companies Act 1985.

