

22nd September 2008

Hydrodec Group plc

Unaudited Interim Results

Hydrodec Group plc (AIM: HYR) today announces unaudited Interim Results for the six months ended 30 June 2008.

Operational:

- First US plant in Ohio completed on time and under budget
- Acquisition of Virotec International plc
- CSIRO royalty pre-paid
- Commencement of export sales of *SUPERfine*TM to Turkey from Australia
- Development of Japanese market commenced
- Successful £5.0m placing in April 2008
- Commitment for off-take of over 50% of Ohio production
- Construction go-ahead for the second US plant in Laurel, Mississippi

Financial:

- Revenues: £2,039,312 (2007: £689,666)
- Net operating loss £1,285,697 (2007: £1,167,153)
- Net assets £27,243,271 (2007: £12,391,962)

Hydrodec Chairman John Gunn commented: “It was a great achievement to complete the Canton, Ohio plant on schedule and ahead of budget. The response to *SUPERfine*TM in the US has been very positive, reflected by the securing of off-take demand in excess of 50% of Canton’s capacity before production has started. This is a significant testament to the market’s reaction to the quality of *SUPERfine*TM oil and the viability of Hydrodec’s business model.

The Board has approved commencement of the Laurel, Mississippi plant and commissioning is expected in 2009 with further pre-sales already taken. Australia’s plant in Young, New South Wales, has continued smooth operation.

Our entry into the Japanese market is also making great progress. The recent signing of a MOU with KOBELCO ECO-SOLUTIONS CO., LTD. (KES), in Japan sets the Company up to meet our objective to commence construction of a facility in Japan during 2009. The acquisition of Virotec and the CSIRO royalty streams has eliminated a 10% charge on gross future revenue. This additional profit can be re-invested into the business to fund future growth and business opportunities.

As demand and recognition for *SUPERfine*TM grows in the US and the worldwide increase in demand for transformer oil continues, Hydrodec is now well positioned to provide a sustainable resource for its customers.”

For further information please contact:

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John Gunn, Chairman

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Emma Davis

CHAIRMAN'S STATEMENT

I am pleased to present Hydrodec's unaudited interim accounts for the six months ended 30 June 2008. Hydrodec's technology is an oil refining process, producing new speciality oils, using spent 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 *SUPERfineTM* oil.

Results for six months ended 30 June 2008

Turnover for the period increased by 196% over the first half of 2007 to £2,039,312 (2007: £689,666), with an overall operating loss of £1,285,697 (2007: £1,167,153). The operating loss includes £507,240 of depreciation and the amortisation. Net assets increased by 120% to £27,243,271 (30 June 2007: £12,391,962), including cash balances of £8,991,049 (30 June 2007: £2,284,324).

Commercial developments

USA

The handover from construction to commissioning for the new Canton, Ohio refinery took place in the week commencing 16th June. During that week, the plant was pressurised and final dry testing commenced ahead of catalyst conditioning and first oil feed to the reactors. Since then, *SUPERfineTM* transformer oil has completed wet commissioning and then independent quality assurance verification. Samples of the oil have now been sent to Hydrodec's customers for their final approval. Canton has a production capacity in excess of 80,000 litres per day.

There is already a commitment for the purchase of greater than 50% of the maximum production capacity of the new Canton plant plus a firm expression of interest in increasing purchase quantities upon commissioning of the Laurel, Mississippi plant.

Construction of the second US plant in Laurel continues. With a similar capital investment, this plant will be 1 ½ times the size of Canton and will have a production capacity of 120,000 litres per day. It is scheduled to start commercial operations during the second half of 2009. Once operating, these plants will represent a ten fold increase of Hydrodec's existing *SUPERfineTM* production capacity.

Japan

Visits to the Australian plant by key Japanese parties commenced in March 2008 and in June Hydrodec announced the signing of a MOU with Sanyu Plant Service Co (Sanyu). Commencement of work on this MOU has lead to the development of a more powerful MOU with KES, a majority owned subsidiary of Kobe Steel, and one of Japans most respected industrial companies. Sanyu has withdrawn on amicable terms in favour of KES.

KES is the environmental business unit of the Kobe Steel Group, one of Japan's most prominent industrial companies. KES has extensive business in the treatment of PCB contaminated electrical equipment and transformer oil, has advanced technology and engineering capabilities in the environmental field, has strong research and development capabilities and has established and comprehensive links with the Japanese power industry.

The MOU with KES creates a binding agreement between the companies and commits Hydrodec exclusively to KES for the six month term of the agreement. The objectives of the agreement include finalisation of the feasibility of the Hydrodec business in Japan, establishment of terms under which the parties may enter into a cooperative business arrangement in Japan and documentation of the terms of conduct of a mutually acceptable master agreement between the parties.

Australia

In May and June *SUPERfine*TM sales averaged 500,000 litres per month, close to the maximum capacity of the plant. The Young plant continues to supply Turkey and to meet continued growing demand from the domestic market.

Placing

Hydrodec placed 10,000,000 new ordinary shares at a price of 50.0 pence per share to raise £5.0 million (before expenses) in April. The placing provided Hydrodec with additional funds required for its offer for Virotec International plc as well as for general corporate purposes, including the further expansion of Hydrodec's operations.

Acquisitions

The acquisition of Virotec International plc ("VTI") was completed in June for a total consideration of £35.2 million, a breakdown of which is contained at Note 8 in the release. This resulted in an additional 64,689,227 new Hydrodec shares being issued. The assets acquired included the royalty stream owed to Virotec as well as Virotec's 54.5 million Hydrodec shares. These are now held as treasury shares.

The other royalty stream Hydrodec paid was due to CSIRO (Commonwealth Scientific and Industrial Research Organisation), owner and licensor of the Hydrodec patent. This was a royalty of 5% of the gross revenue earned by the company from the Hydrodec technology for the life of the patent. In May, CSIRO agreed to accept a one-off cash payment of AUD\$5.6 million (£2.7 million) as complete pre-payment of all royalties due under the Hydrodec technology licence agreement (the "Licence Agreement").

The transformer oil market

Continued price volatility in crude oil markets has seen a corresponding volatility in the price of used oil as well as transformer oil. Furthermore unusually violent storms in the Gulf Coast area have impacted production and refinery capacity in Texas and Louisiana that has had a direct impact on base oil supplies. Based upon these and other factors, the market price for transformer

oil increased during the period. List price increases were announced by producers in the USA and escalating crude oil prices have started to feed through to the market place. Power industry infrastructure replacement programs and upgrades are also gathering momentum in the USA and Australia, increasing short and medium term demand for transformer oils. The ongoing tight supply situation combined with increasing price and demand is providing progressive improvement in Hydrodec's competitive position in its two current key markets Australia and the USA and its potential Japanese market. In addition a major opportunity exists for the treatment of PCB contaminated oil especially in Japan, USA and Europe.

Current trading

*SUPERfine*TM sales volumes have increased throughout the period and this trend has continued post period end.

The future

Sales progress in Australia continues to be encouraging with repeat orders from Turkey and an increased level of interest from the domestic market. Opportunities exist for the Australian plant to supply other countries such as Indonesia, New Zealand, and possibly the West Coast of the USA and these are actively being pursued.

The treatment of other specialty oils for recycling e.g. hydraulic oils continues to be evaluated at the request of major producers and users in this sector and it is hoped this will lead to significant commercial opportunities. The market potential for Hydrodec in these areas is many times the size of the transformer oil market. In addition, Hydrodec has ambitions to establish a re-manufacturing business for dangerous waste products such as PCBs and POPs.

The potential for Hydrodec in the USA, Japan and other international markets is huge and exciting opportunities await us. We are confident in the quality of *SUPERfine*TM and believe that we can satisfy customer demand and exceed customer expectations. The commencement of the Canton plant in September marks a milestone for Hydrodec as it becomes a global company.

The dynamics of the global transformer oil market continue to move in favour of *SUPERfine*TM oil. The key advantages of sustainability, a predictable price and supply and the world-class product that Hydrodec provide remain as compelling as ever in today's market place. I look forward to announcing further significant corporate and commercial developments soon.

John Gunn

Non-executive Chairman

22nd September 2008

CONSOLIDATED PROFIT AND LOSS

| | (Unaudited) 6 months ended 30 June 2008 | (Unaudited) 6 months ended 30 June 2007 |
|--|---|---|
| Note | £ | £ |
| Turnover | 2,039,312 | 689,666 |
| Cost of sales | <u>(496,385)</u> | <u>(271,180)</u> |
| Gross profit | 1,542,927 | 418,486 |
| Administrative expenses | <u>(2,828,624)</u> | <u>(1,585,639)</u> |
| Operating loss | (1,285,697) | (1,167,153) |
| Interest income/(expenditure) | 6 <u>(573,763)</u> | <u>21,149</u> |
| Loss on ordinary activities before and after taxation | (1,859,460) | (1,146,004) |
| Loss retained for the period | <u>(1,859,460)</u> | <u>(1,146,004)</u> |
| Loss per share | | |
| Basic | 4 <u>(0.96)p</u> | <u>(0.62)p</u> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | (Unaudited) 6 months ended 30 June 2008 | (Unaudited) 6 months ended 30 June 2007 |
|-------------------------------|--|--|
| | £ | £ |
| Loss for the financial period | (1,859,460) | (1,146,004) |
| Currency differences | <u>343,380</u> | <u>181,312</u> |
| Total recognised losses | <u>(1,516,080)</u> | <u>(964,692)</u> |

CONSOLIDATED BALANCE SHEET

| | (Unaudited) As at 30 June 2008 | (Unaudited) As at 30 June 2007 |
|--|--------------------------------------|--------------------------------------|
| Note | £ | £ |
| Non-current assets | | |
| Tangible assets | 9,786,252 | 3,843,678 |
| Intangible | 7 15,032,453 | 6,555,003 |
| Other non-current assets – prepaid royalties | 2,704,240 | - |
| | <u>27,522,945</u> | <u>10,398,681</u> |
| Current assets | | |
| Debtors | 854,336 | 323,863 |
| Investment | 8 2,227,500 | - |
| Inventory | 105,978 | 189,022 |
| Prepayments and other receivables | 652,954 | 68,170 |
| Cash at bank and in hand | 8,991,049 | 2,284,324 |
| | <u>12,831,817</u> | <u>2,865,379</u> |
| Current trade and other creditors | <u>(6,603,323)</u> | <u>(445,070)</u> |
| Net current assets | <u>6,228,494</u> | <u>2,420,309</u> |
| Non current liabilities | <u>(6,508,168)</u> | <u>(427,028)</u> |
| Total assets less liabilities | <u>27,243,271</u> | <u>12,391,962</u> |
| Capital and reserves | | |
| Called up share capital | 1,332,727 | 969,227 |
| Share premium account | 53,570,935 | 19,125,567 |
| Equity reserve | 9,538,900 | - |
| EBT and treasury shares | (27,440,095) | - |
| Share options reserve | 2,690,389 | 2,253,134 |
| Foreign exchange reserve | 496,996 | (3,704) |
| Profit and loss account | (12,946,581) | (9,952,262) |
| Equity shareholders' funds | 9 <u>27,243,271</u> | <u>12,391,962</u> |

CASH FLOW STATEMENT

| | (Unaudited) 6 months ended 30 June 2008 | (Unaudited) 6 months ended 30 June 2007 |
|---|--|--|
| Note | £ | £ |
| Cashflows from operating activities | | |
| Operating loss | (1,285,697) | (1,167,153) |
| Depreciation | 245,040 | 95,899 |
| Amortisation of other intangible assets | 262,200 | 262,200 |
| Finance costs | - | 138,686 |
| Share based payment expense | 213,000 | 113,082 |
| Foreign exchange movement | 343,380 | (3,749) |
| Increase in inventories | 26,833 | (113,661) |
| (Increase)/decrease in amounts receivable | 736,155 | (207,421) |
| Increase/(decrease) in amounts payable | (1,148,838) | (23,676) |
| Net cash outflow from operating activities | <u>(607,927)</u> | <u>(905,793)</u> |
| Cashflows from investing activities | | |
| Purchase of property plant and equipment | (3,172,833) | (134,173) |
| Purchase of Investment | (4,111,677) | - |
| Interest paid | (165,600) | - |
| Bank interest and other income received | 200,213 | 21,149 |
| Net cash outflow from investing activities | <u>(7,249,897)</u> | <u>(113,024)</u> |
| Cashflows from financing activities | | |
| Issue of new shares | 5,000,000 | 2,300,000 |
| Costs of share issue | (200,000) | (19,729) |
| Repayment of lease liabilities | (80,311) | - |
| Net cash inflow from financing | <u>4,719,689</u> | <u>2,280,271</u> |
| Increase/(decrease) in cash and cash equivalents | <u>(3,138,135)</u> | <u>1,261,444</u> |
| Movement in net cash | | |
| Opening cash and cash equivalents | 12,129,184 | 891,913 |
| Increase/(decrease) in cash and cash equivalents | (3,138,135) | 1,261,444 |
| Closing cash and cash equivalents | <u>8,991,049</u> | <u>2,153,357</u> |

NOTES TO THE INTERIM REPORT

1 BASIS OF PREPARATION

The interim consolidated financial statements for the six months ended 30 June 2008 have been prepared under applicable International Financial Reporting Standards adopted by the European Union ("IFRS") which include International Accounting Standards and interpretations issued by the International Accounting Standards Board and its committees, which are expected to be endorsed by the European Union.

This interim financial information has been prepared on the historical cost basis. The accounting policies applied are consistent with those adopted and disclosed in the annual financial statements for the period ended 31 December 2007.

The financial information is unaudited and has not been reviewed by the auditor.

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 2008 | 6 months ended 30 June 2007 |
|--|--|--------------------------------|
| | £ | £ |
| Loss for the financial period | <u>(1,859,460)</u> | <u>(1,146,005)</u> |
| | Number of shares | Number of shares |
| Weighted average number of shares in issue* | <u>193,857,392</u> | <u>185,611,148</u> |
| * The weighted average shares on issue have been reduced by the weighted average number of Treasury and EBT shares held. | | |
| For basic earnings per share | <u>(0.96)p</u> | <u>(0.62)p</u> |

5 DIVIDENDS

No dividends have been paid or proposed for the period.

6 INTEREST

| | 6 months ended 30 June 2008 | 6 months ended 30 June 2007 |
|---------------------------------------|--|--------------------------------|
| | £ | £ |
| Interest expense – Convertible Notes | (786,007) | - |
| Interest income | 212,244 | 21,149 |
| Net Interest for the financial period | <u>(573,763)</u> | <u>21,149</u> |

7 INTANGIBLE ASSETS

| | Note | (Unaudited) £ |
|---|-------------|---------------------------------------|
| <i>Cost</i> | | |
| At 31 December 2007 | | 9,868,780 |
| Intangible assets acquired At 30 June 2008 | 8 | <u>9,001,850</u> 18,870,630 |
| <i>Amortisation</i> | | |
| At 31 December 2007 | | 3,575,977 |
| Charge for the period At 30 June 2008 | | <u>262,200</u> 3,838,177 |
| <i>Net book value</i> | | |
| At 30 June 2008 | | <u>15,032,453</u> |
| At 31 December 2007 | | <u>6,292,803</u> |

8 ACQUISITION OF VIROTEC INTERNATIONAL PLC

The acquisition of the Virotec International plc Group (“VTI”) was completed on 25 June 2008. The acquisition was a cash and scrip offer and was funded from existing cash reserves. The offer was completed by the issue of 64,689,227 ordinary shares and the payment of £2.8 million.

The acquisition of VTI had the following effect on the Group’s assets and liabilities:

| | Book value | Fair value adjustments | Provisional fair values |
|-------------------------------------|-------------------|-------------------------------|--------------------------------|
| | £ | £ | £ |
| Intangible assets** | - | 6,924,500 | 6,924,500 |
| Property, plant and equipment | - | - | - |
| Treasury stock* | - | 26,160,000 | 26,160,000 |
| Investments*** | 5,180,141 | (2,952,641) | 2,227,500 |
| Trade receivables and other debtors | 82,335 | - | 82,335 |
| Cash at bank | 7,979 | - | 7,979 |
| Current liabilities | (212,435) | - | (212,435) |
| Provisions | - | - | - |
| Deferred tax liabilities | - | (2,077,350) | (2,077,350) |
| | <u>5,058,020</u> | <u>28,054,509</u> | <u>33,112,529</u> |
| Net cash paid**** | | | 3,456,428 |
| Shares issued | | | 30,007,629 |
| Deferred consideration | | | 604,951 |
| Acquisition costs | | | 1,120,871 |
| Consideration | | | <u>35,189,879</u> |
| Goodwill on acquisition | | | <u>2,077,350</u> |

* The acquisition of VTI included 54.5 million shares in the Hydrodec Group. These shares have been treated as Treasury Stock.

** Intangible asset acquired is the Royalty payable from Hydrodec to VTI.

*** Investment represents shares held in Molecra Group Ltd (previously The Greenhouse Fund Ltd)

**** Net cash includes £648,750 relating to Virotec shares purchased prior to the offer being made.

Fair values have been assessed on a provisional basis pending finalisation of the rationalisation of group accounting procedures, which cover a number of different reporting regimes throughout the world. Deferred tax has been provided on all fair value adjustments as applicable and on purchased goodwill where a tax benefit will be obtained against future taxable benefits.

The valuation of intangible assets has been estimated at this stage.

9 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | |
|--|---|
| | (Unaudited) As at 30 June 2008 No. |
| Authorised Ordinary shares of 0.5 pence each | <u>800,000,000</u> |
| Issued and fully paid - ordinary shares of 0.5 pence each At 31 December 2007 | 193,845,400 |
| Issues to acquire investment | 64,689,227 |
| Issued to satisfy Convertible Notes | 184,212 |
| Issued for cash | 10,000,000 |
| At 30 June 2008 | <u>268,718,839</u> |

The company issued the following 0.5 pence ordinary shares during the period:

| Date of issue | Number of shares | Issue price | Total consideration £ |
|---|------------------|-------------|--------------------------|
| 21 April 2008 | 10,000,000 | 50 pence | 5,000,000 |
| 27 May 2008 | 184,212 | 19 pence | 35,000 |
| 25 June 2008 | 64,689,227 | 48 pence | 31,050,829* |
| * <i>Net share consideration for Acquisition of Virotec International plc (VTI)</i> | | | |
| Total share consideration | | | 31,050,829 |
| Less shares issued to Hydrodec as a VTI shareholder | | | <u>(1,043,200)</u> |
| Net Consideration in Note 8 | | | <u><u>30,007,626</u></u> |