

07 December 2006

HYDRODEC GROUP PLC

ESTABLISHMENT OF FIRST US HYDRODEC PLANT AND TECHNOLOGY UPDATE

North American expansion

Hydrodec Group plc (“Hydrodec” or “The Company”) announces it has received statutory planning consent for the establishment of its first North American Hydrodec plant in Canton, Ohio. Canton has been chosen due to its location in one of the major industrial regions in the USA, close to both the suppliers of feedstock oil and potential *Superfine* transformer oil customers.

The State of Ohio and the City of Canton have also provided a package of incentives to Hydrodec. These include, from the State, a Business Development grant of up to US\$100,000, a Workforce Development grant of up to US\$65,000, a grant for off site infrastructure of up to US\$400,000 and US\$539,300 of State Job Creation Tax Credits. Incentives provided by the City of Canton include a Job Creation Program incentive valued at c.US\$210,938, Net Profits Tax incentive valued at c.US\$229,640, and an US\$437,756 Enterprise Zone Tax Abatement over ten years.

The Company has also reached conditional agreement on the acquisition of the proposed production site located in an industrial park within Canton City limits. The site has direct access to interstate rail and road transport corridors. Concept planning for the facility is near complete and detailed design is underway. Design completion is scheduled for Q1 2007. Order placement for long lead equipment and commencement of construction site works has been scheduled for Q2 2007. Commissioning of the new facility is expected during the first half of 2008. Finalisation of the production facility location and commissioning dates has also enabled the acceleration of market development and product pre-sales activities. The site is expected to have a production capacity of 60,000 to 80,000 litres of *Superfine* transformer oil per day, a quadrupling of Hydrodec’s existing *Superfine* production capacity.

Technology update

Ongoing product research and development carried out through July and August in response to customer inquiry identified a means of enhancing the technical quality of *Superfine* oil. This enhanced quality has been delivered by adjustment of operating conditions and minor modification of equipment in one section of the process train within the existing plant. As a result of these developments, *Superfine* production was halted in November while re-engineering took place to modify the plant.

This short term slow down in production means that the Australian operations will now not achieve profitability until Q1 2007. Whilst this is a little later than previously expected, successful re-engineering of the process and our work with two influential laboratories within the transformer oil industry has increased awareness of *Superfine* and created new sales opportunities. We are currently pursuing a number of these opportunities and hope to announce further progress shortly.

Hydrodec Chairman John Gunn commented, “We are delighted that after 18 months work, Hydrodec has located its first US plant. Canton is a logistically ideal site, given the location of feed-stock suppliers, Superfine customers and the availability of a skilled workforce. The initial response from key customer groups indicates a high level of interest and support for the environmental sustainability and greenhouse benefits that Hydrodec’s technology provides. The Canton plant marks the start of Hydrodec’s US plans, and I look forward to construction commencing next year. We hope to be able to announce significant progress on the second US production facility early in 2007.

The recent technological developments in Australia mean that the *Superfine* product has been further tailored to meet the demands of our Australian and US customers in the future. Our aim is to create the world’s best brand of transformer oil; these measures ensure material progress in this area, particular in

the area of product pricing.”

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