

9 October 2007

HYDRODEC GROUP PLC

**ISSUE OF £13.8 MILLION UNSECURED CONVERTIBLE LOAN NOTES TO FUND USA
EXPANSION**

APPOINTMENT OF DIRECTOR

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Hydrodec Group plc (“Hydrodec” or “the Company”) today announces the conditional placing of £13.8 million of Fixed Rate Unsecured Convertible Loan Notes (the “Loan Notes”) with institutional and other private investors (the “Placing”). The Loan Notes will pay interest semi-annually in arrears at a rate of 8% p.a. and will be convertible into new Ordinary Shares of the Company at 19p per share. The Placing is conditional, *inter alia*, on the passing of resolutions to increase the Company’s authority to allot relevant securities and to disapply pre-emption rights in respect of certain allotments, including the Placing, at an Extraordinary General Meeting expected to be held on 5 November 2007. Further details of the Placing are set out under “Principal terms of the Placing” below. Ludgate Investments Limited is acting as placing agent to the Company and is itself participating in the Placing.

The Company is also pleased to announce that with immediate effect John Cowan, currently President of Hydrodec North America Inc. will be joining the Board. John joined Hydrodec in 2006 after 10 years with the Dow Chemical Company and 28 years in total working in environmental technologies and services businesses. He has been and will continue to be instrumental in the development of the Company’s North American business.

The funds from the Placing will be used to complete construction of Hydrodec’s first American *Superfine* transformer oil production plant in Canton, Ohio and to finance the whole of the construction of Hydrodec’s second plant in Laurel, Mississippi. This follows the announcement by the Company on 24th September 2007 that it had received approval to proceed with the procurement of long term lease possession of a 12.9 acre site in Laurel at a site adjacent to the facilities of Howard Industries Inc., a leading manufacturer of oil filled transformers in the USA and therefore a major potential customer for Hydrodec.

Construction of the Ohio plant commenced in June 2007 with site earthworks and tank farm construction. Progress to date has been good and the overall project is currently expected to be completed on or below budget and ahead of schedule. The weather dependent works have already been completed ahead of the onset of winter such that further plant assembly work can now take place under cover. Provided supply contracts are negotiated, the Company expects to start taking delivery of feedstock into the completed tank farm by the end of the current year and to be fully operational by June 2008. Despite this, the Company has not budgeted for any revenues from this plant until the end of 2008. The plant will have a planned capacity of approximately 90,000 litres per day but an assumed annual operating output of around 27m litres. Total capital expenditure is expected to be US\$12 million with a further US\$3m allowed for pre-operating expenses and corporate costs in the US.

Construction of the second plant at Laurel, Mississippi is planned to commence in early 2008 and for commissioning to take place in the first half of 2009.

All of the funds raised, net of expenses of the issue, are expected to be applied towards the construction and associated costs of the two US plants.

The decision to accelerate development of its second US plant reflects the very strong interest being generated by Hydrodec's US marketing program. The Company's progress in the USA reflects the now widespread acceptance of its *Superfine* transformer oil product in Australia. The Company recently announced that production at its Young, New South Wales plant was expected to reach 75% of capacity in the near future. In the US, in parallel with its construction projects, Hydrodec will continue to develop relations with both transformer manufacturers and electricity distribution companies and will be seeking expressions of interest as to possible agreements, both supply-side for used feedstock oil and demand-side for *Superfine* oil.

The Company will convene an extraordinary general meeting of shareholders ("EGM") to consider resolutions to grant the Directors the necessary authorities to enable the Company to proceed with the Placing and to issue a further 10% of the issued undiluted share capital of the Company for cash on a non pre-emptive basis without further recourse to shareholders. Further details of the meeting and the resolutions are set out under "Extraordinary General Meeting" below.

John Gunn, Chairman, commented, "*I am delighted that the Company's planned US expansion is now fully funded. The development of the two plants in the US alone will give the Company additional market presence and should enable it to develop a profitable business. Equally importantly, however, this will provide the platform for further expansion of the Company's technology into other markets. In light of the strong interest we are seeing in the US for the Company's renewable oil solution, I look forward over coming months to being able to announce progress on the development of key supplier and customer relationships as our production capability becomes a reality*".

Principal terms of the Placing

The Placing, principally with institutional investors, is for £13.8 million of Fixed Rate Unsecured Convertible Notes. The Loan Notes will pay interest semi-annually in arrears at a rate of 8% p.a. with the first payment being for the period from the issue of the Loan Notes to 31st December 2007. The Loan Notes which will not be listed are convertible into approximately 72.63 million new Ordinary Shares of the Company in aggregate. This represents 27.3% of the Company's enlarged issued share capital assuming that all the Loan Notes are converted into Ordinary Shares. The Conversion price of 19p per share represents a premium of 13.4% to the closing mid-market price of 16.75p per Ordinary Share on 5 October 2007. If not subsequently converted, the Company will have the right to redeem the Notes at any time from 1st November 2012 to 31st October 2014, by which date they must be redeemed.

The Company has entered into an agreement relating to the Placing (the "Placing Agreement") with Ludgate Investments Limited ("LIL") under which Ludgate has agreed to use its reasonable endeavours to procure subscribers for the Loan Notes. The terms of settlement in relation to the Placing are set out in placing letters issued by Ludgate. The issue of the Loan Notes is conditional, *inter alia*, on the passing of the resolutions to be proposed at the EGM as described below and to the Company notifying LIL in writing that none of the representations, warranties or undertakings referred to in the Placing Agreement has been breached.

For as long as not less than £3 million of Notes are outstanding, the Noteholders will have the right by extraordinary resolution to nominate a person to be appointed as a director of the Company. Any person nominated pursuant to this power must be approved by the Board and Numis Securities Ltd, as the Company's nominated adviser. Any such appointee will be required to put himself forward for re-election by Shareholders at the annual general meeting following his appointment.

The Company has undertaken to apply for Admission of the Ordinary Shares to be issued on conversion of the Loan Notes to trading on AIM. Assuming the conversion of all of the Loan Notes (and assuming no other Ordinary Shares have been issued in the meantime), the total number of Ordinary Shares in issue will then be 266,476,980. The New Ordinary Shares will rank *pari passu* in all respects with the

existing Hydrodec shares in issue.

Extraordinary General Meeting

The size of the Placing will exceed the Company's current dis-application authority, as well as the Directors' general authority to allot equity securities. Accordingly, the Company is proposing to convene an EGM on or around 5 November 2007. At such meeting, the Company will propose an ordinary resolution to grant further general authority to the Directors to allot relevant securities up to an agreed limit and a special resolution to authorise the Directors to allot equity securities for cash without the application of statutory pre-emption rights in respect of the Placing and, in addition, in respect of up to 10 per cent. of the issued undiluted share capital of the Company following the implementation of the Placing.

A circular convening the EGM is expected to be despatched to shareholders later this week and will be made available on the Company's website www.hydrodec.com.

Assuming that the EGM is held on 5 November 2007, completion of the Placing is also expected to take place on 5 November 2007.

For further information please contact:

John Gunn, Chairman
Hydrodec Group plc
Tel: 0207 621 5770

Emma Davis
Curve PR
Tel: 07764 197 003

Notes to Editors

Hydrodec's technology is a patented sustainable oil refining process that takes existing spent oil as feedstock to produce new specialty oils thus creating a virtuous "green" cycle. The process is closed loop and produces no harmful emissions. It can indefinitely return "as good as new" oil ("Superfine") to utilities and transformer manufacturers (who supply the utilities) and at the same time removes their lifetime stewardship liabilities for these harmful substances. Hydrodec's first commercial process re-refines the used transformer oils that insulate and cool utility transformer boxes. It currently has one operating plant in Young, New South Wales in Australia.

Hydrodec Group plc is a public company, quoted on AIM since December 2004 and its market capitalization as at 5 October 2007 is £36.8 million. For further information please go to hydrodec.com

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