

## **Hydrodec Group plc (the "Company")**

### **Placement of Ordinary Shares Notice of General Meeting**

Hydrodec Group plc (AIM: HYR) announces that it proposes to raise approximately £2.1 million (before expenses) through a placing ("Placing") of 17,500,000 Ordinary Shares at 12p each ("Placing Price"). As described below, the Placing will be divided into two tranches, the Firm Placing and the Conditional Placing.

#### ***Back ground to and reasons for the Placing***

As recently announced in the Company's trading statement of 19 November 2009, the Group continues to demonstrate its recovery from the difficult first half of 2009 which was seriously impacted by a combination of the global financial crisis, the collapse in the price of oil and initial operational challenges at the Canton plant.

The ramp-up in the Group's production and sales are continuing and fourth quarter volumes are expected to exceed those achieved in the third quarter. The Board remain confident that production and sales levels will continue to increase into next year.

Currently, the Group's core customers in the US are original equipment manufacturers (OEMs). OEMs traditionally purchase their transformer oil requirements on a calendar year basis and allocate their demand to several suppliers under annual off-take arrangements. These arrangements are typically concluded prior to the relevant period and usually at an agreed margin over the prevailing West Texas Intermediate (WTI) crude oil price. As a result of the difficulties experienced during the first half of 2009, as referred to above, the Group's production in the second half of the year has exceeded its committed off-take volumes and it has therefore been more exposed to the "spot" market for transformer oil in the US. The "spot" market constitutes sales to customers which either do not commit to purchase transformer oil in advance or which have excess requirements above their pre-agreed off-take allocations. During this period, the spot market has been soft, both in terms of the supply/demand situation and price, although currently the situation is improving. This has resulted in revenues and related cash generation being lower than expected so far in the fourth quarter and the Group is therefore cash constrained as it gears up for increased production and off-take sales in the first quarter of 2010 and to focus on the growth opportunities it has identified for 2010 and beyond.

As announced on 8 December 2009, the Group has reached agreement with Howard Industries, one of the largest privately owned transformer manufacturers in the world and one of the Group's largest existing customers, for the supply of 11.4 million litres of 2010 Canton SUPERfine production. It has also received letters of intent from two further OEMs in respect of at least 7.5 million litres in aggregate. These two remain subject to contract but the Board expects that, if contracts are signed, they will result in total contracted off-take arrangements for approximately 19 million litres for 2010. The balance of Canton production will be reserved for additional OEMs, utilities and serving new and existing export markets during the year, which should in turn assist

with demonstrating the viability of a second US plant and demand for 2011 and beyond.

As described further below, the Placing is split into two tranches, the Firm Placing and the Conditional Placing. The net proceeds of the Firm Placing are expected to be approximately £1.8 million. The net proceeds of the Conditional Placing are expected to be approximately £0.2 million, assuming the resolutions put to shareholders at the General Meeting referred to below are passed. These sums will be used, in conjunction with the Group's existing resources, to provide approximately £1.2 million to meet both the next payment of interest due on the Company's loan notes (which is payable on 31 December 2009) and to pay certain trade creditors. The balance of the proceeds of the Placing will be used to fund the increased working capital requirements of the Group and to assist in providing the appropriate resources to better exploit the growth opportunities identified by the Group for 2010. This will include building sufficient stocks to service the increased demand on Canton production output from the start of the first quarter of 2010, and ramping up pre-sales and pre-construction development activities to underpin the viability of the second North America plant and, with our Japanese partners, the first plant in Japan.

### ***Operational and Trading Update***

- **Production**

Group production continues to increase with fourth quarter volumes expected to exceed those produced in the third quarter.

The ramp-up of production in Canton continues with volumes comfortably matching sales demand but restrained to reduce stock build-up and conserve working capital. Critical equipment continues to operate well while still being closely monitored following issues with faulty equipment earlier in the year which has since been replaced.

US average feedstock costs continue to be managed downwards through securing a wider portfolio of suppliers. In addition, the Board is pleased to report that the initial PCB treatment trials undertaken at Canton in October this year by the US Environmental Protection Agency (EPA) were successfully passed. As a result the Board expects that full EPA approval to treat PCB contaminated oil should be obtained during 2010, although as with all regulatory approvals this is not certain. Full EPA approval, if obtained, should see the Canton facility benefit from further reduction in average feedstock costs as a result of being able to process supplies of PCB contaminated feedstock.

The Australian plant continues to run reliably. Production has been constrained by the availability of feedstock but action is being taken to seek to improve this supply.

- **Sales**

Group sales volumes have also continued on an upwards trend with fourth quarter volumes expected to exceed those in the third quarter.

As described above, higher production levels in the second half of 2009 have led to greater exposure to the spot price. This has been soft in recent months but major US refiners have recently announced price increases of around 10%. US sales volumes in November were up on October and at improved margins helped by the progressive reduction in average feedstock costs.

Fourth quarter sales from the Australian plant are expected to exceed each of the first three quarters of the year but feedstock supplies remain tight. The Group intends to make a concerted effort to broaden its Australian customer base and improve pricing and is optimistic that this will lead to improved results into 2010.

The Group's off-take arrangements for 2010, together with continued successful operation of the plants and the reduction of average feedstock costs, reinforce the Board's belief that the Group's sales volumes and margins will improve into 2010 and beyond.

- **Japan**

As announced in November, the Japan and wider Asian opportunity continues to progress well and formal approval to operate the technology in Japan as a PCB treatment system is expected early in 2010. Prospective plant locations have been identified and technology approval will, when obtained, permit application for local government approvals for the first and preferred site to commence.

### ***The Placing***

The Company has entered into a placing agreement ("Placing Agreement") with Numis Securities Limited ("Numis"). Pursuant to the Placing Agreement, Numis has agreed to use its reasonable endeavours to procure places for the new Ordinary Shares at the Placing Price.

The Placing will be split into two tranches, a firm placing ("Firm Placing") and a conditional placing ("Conditional Placing"), both at a placing price of 12 pence per Ordinary Share. The Firm Placing consists of the placing of 16,094,200 Ordinary Shares and the Conditional Placing consists of the placing of 1,405,800 Ordinary Shares. The Conditional Placing is subject to shareholder approval at a General Meeting to grant the Directors authority to issue the 1,405,800 new Ordinary Shares, and which is expected to be held at 10.00 a.m. on 7 January 2010 at the offices of the Company at 4<sup>th</sup> Floor, 120 Moorgate, London EC2M 6SS.

The obligations of Numis under the Placing Agreement in respect of the Firm Placing are conditional upon, *inter alia*, admission of the new Ordinary Shares issued under the Firm Placing to trading on AIM ("First Admission") becoming effective on or before 8.00 a.m. on 21 December 2009 (or such later time and date, not being later than 8.30 a.m. on 31 December 2009). The obligations of Numis under the Placing Agreement in respect of the Conditional Placing are conditional upon, *inter alia*, First Admission becoming effective, the resolutions being duly passed at the General Meeting and admission of the new Ordinary Shares issued under the Conditional Placing to trading on AIM ("Second Admission") becoming effective on

or before 8.00 a.m. on 13 January 2010 (or such later time and date, not being later than 8.30 a.m. on 5 February 2010). The Placing Agreement contains provisions entitling Numis to terminate the Placing Agreement at any time prior to the Second Admission in certain circumstances. If this right is exercised before the First Admission the Placing will not proceed or, if the Placing Agreement is terminated (in respect of the Conditional Placing only) after First Admission but before Second Admission, the placing of the new Ordinary Shares to be issued under the Conditional Placing will not proceed.

Application will be made to the London Stock Exchange for the new Ordinary Shares to be admitted to trading on AIM. It is expected that the new Ordinary Shares under the firm Placing will be issued and admitted to trading on AIM on or about 8.00 a.m. on 21 December 2009 and the new Ordinary Shares under the conditional Placing will be issued and admitted to trading on AIM on or about 8.00 a.m. on 13 January 2010.

Mark McNamara, a Director and the Company's Chief Executive Officer, will be participating in the Placing. Mr McNamara will subscribe for 166,667 Ordinary Shares at the Placing Price, representing a total subscription of £20,000. Following the completion of the Placing (assuming both elements of the Placing take place), Mr McNamara's beneficial holding of ordinary shares will be 166,667 (representing 0.06 per cent. of the Company's issued voting shares). Mr McNamara currently has no beneficial holding of Ordinary Shares but he has an interest in options over 6,500,000 Ordinary Shares. No other Director is participating in the Placing.

The Company will shortly be posting to shareholders a circular attaching a notice convening the General Meeting, which will also be available on the Company's website [www.hydrodec.com](http://www.hydrodec.com).

For further information please contact:

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Neil Gaskell, Chairman

Mark McNamara, Chief Executive

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