

Press release

Specialist Energy Group plc

(“Specialist Energy Group”, the “Group” or the “Company”)

Specialist Energy Group plc – Unaudited interim results for the six months ended 30 June 2010

Specialist Energy Group plc, the specialist engineering group, today announces its interim results for the six month period ended 30 June 2010. The results include the contribution from its operating subsidiary, Hayward Tyler Group Limited (“Hayward Tyler”), a market leader in the manufacture and service of critical application pumps and motors to the power generation and oil and gas markets.

Financial Highlights:

- Revenue growth of over 5% to £18.6 million (growth of 7.6% after eliminating the impact of foreign currency movements);
- Increase in gross margin from 30.5% to 32.3%;
- Significant H1 improvement in operating profit to £1.3 million (H1 2009: £0.04 million) and trading profit from continuing operations increased to £0.6 million (H1 2009: loss of £1.3 million);
- Reduced net debt to £10.5 million from £13.7 million at 31 December 2009 following the successful reverse acquisition into Nviro and £4.0 million capital raise;
- Order intake of £13.8 million; order book of £27.3 million;
- Non-trading charges and impairments in the period relating to historical loss making Nviro business £3.4 million.

Business Highlights:

- Over 85% of revenues derived from the power generation and oil & gas markets;
- Shipment of a £2.5 million synthetic gasification cooler pumps project in the USA;
- Closure of loss making Nviro operations and sale of Vertus tangible assets for US\$450K in period since 30 June 2010. Clean coal technology IP licensing opportunities being pursued;
- Appointment of new NED, Ron Emerson (ex Premier Oil/Fairfield Energy).

Ewan Lloyd-Baker, Chief Executive, commented:

“Our focus on Hayward Tyler, its product development, internal efficiency drives and business development activity in key geographic regions has enabled the business to benefit despite the broader economic difficulties in the period. We are therefore confident that the business will continue to see improved gross and operating margin levels for the full year.”

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Interim statement

General Overview

Despite the significant additional time and resource invested in the reverse takeover and AIM readmission back in January the Group has continued to make good progress in its Hayward Tyler subsidiary with a year on year increase in revenues, gross and operating profits.

Gross margins increased further led in the main by the continuing improvement in the manufacturing operations as older, legacy contracts were shipped and replaced with higher margin contracts. Further operational improvements are being implemented to ensure that the increasing margin trend continues and provides a more flexible manufacturing operation through which new export-led business can be won. This increased focus on the cost base and associated efficiency developments are already helping to reduce delivery lead times to levels of around 12 months.

The order book reduced from £30.1 million as at 1 January 2010 to £27.3 million at 30 June 2010 reflecting a lower level of new unit orders by the manufacturing division, which were partially offset by an improving order intake by the services division that was driven by the UK business in particular (overall order intake was £13.8 million during H1 2010). The pipeline continues to remain healthy and, whilst there is an increasingly competitive marketplace in China and India, Hayward Tyler is proving its resilience by continuing to win new business.

Manufacturing revenues in the first half grew to record levels reflecting increased new unit shipments totalling £9.8 million (H1 2009: £7.2 million), which offset a slower start to the year in the services operations where revenue of £8.8 million was lower than last year (H1 2009: £10.4 million) due to a slower start in the US operations and the impact of a weaker US dollar.

The operations of Nviro Cleantech plc (“Nviro”) have now been closed down and the remaining tangible assets sold for US\$450K (gross proceeds) during the period since 30 June 2010. The Company still retains its clean coal technology intellectual property and discussions are ongoing with a number of parties in terms of potential licensing/revenue sharing opportunities.

Outlook

The business continues to focus on its key end markets of power generation and offshore oil and gas.

Power Generation

The current pipeline and activity levels are high, particularly driven by the Chinese and Indian markets. Electrification remains a key political and economic driver across both countries with larger more efficient coal fired power stations being an important part of the overall generating mix. In the USA it is encouraging to see some significant new order wins for the nuclear market both in terms of servicing and spares but also for new units. Next generation reactor designs specifically from Areva and Westinghouse have led to a number of bids being submitted for pump packages in the EU, China and India and the previously announced order win for the new AP1000 reactor design is particularly positive. Likewise the Company is also looking to develop its recent success in the synthetic gasification market particularly given the potential of this technology to reduce the emissions of existing coal fired power stations.

Oil & Gas

The market for ‘topside’ applications is recovering with encouraging signs from a number of major contractors particularly with the move to large floating liquefied natural gas platforms and ships with requirements for large submersible motors. This interest is global with potential application in South East Asia, West Africa and China in particular. Interest is also increasing in terms of the deep submersible motor units which have been delivered to Aker and are in production for GE Oil & Gas. Development activity is likely to focus on building larger pumping units operating at 3MW+ and at depths of up to 5,000 metres.

Interim statement (continued)

Group

As previously announced in our trading update we were also delighted to welcome onboard Ron Emerson as an independent Non-Executive Director and Chairman of the Remuneration Committee. Ron is a respected businessman and his engineering background, experience of the financial and capital markets and knowledge of the oil and gas sector will be invaluable in the continued development of the Group.

With management's focus on Hayward Tyler the Group remains confident that it will continue to see improved gross and operating margins for the remainder of 2010. Indeed the long-term growth of our operating businesses is being driven by two long-term macro-drivers – firstly the increased desire for electrification and power in the developing economies, most notably China and India; secondly, the desire for more efficient energy provision and new energy sources in the developed and developing economies. Our relentless focus on product development, internal efficiency drives and business development activity in key geographic regions has enabled the business to benefit from this despite the broader economic difficulties in the period.

Finance Review

Business combination

On 20 January 2010 Southbank UK plc ("Southbank") completed the reverse into Nviro with Nviro becoming the ultimate parent company of the combined group and new capital of £4.0 million before expenses being raised. The enlarged group was admitted to AIM and Nviro was re-named Specialist Energy Group plc.

Basis of reporting

The Group financial statements in this report have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). This is the first interim report of the Group since the reverse acquisition and standard accounting practice requires that the comparative figures are those relating to Southbank, further details of which are set out in notes 4 and 15. In line with the Board's previously stated intention to focus the Group's resources on the Hayward Tyler business, the operations of Nviro have been treated as a discontinued business. Refer to note 16 for further details. To provide clarity to the results they have been analysed between *trading* and *non-trading* where trading represents the underlying business performance and non-trading includes the one-off costs of the reverse acquisition and discontinued business together with the non-cash fair valuing of derivative contracts.

Results overview

Revenue for the first half of 2010 increased by 5% to £18.6 million (H1 2009: £17.6 million), driven by the manufacturing operations of Hayward Tyler. Gross profit margin increased to 32.3% (H1 2009: 30.5%), which delivered a trading operating profit of £1.3 million (H1 2009: £0.04 million) and trading profit from continuing operations of £0.6 million (H1 2009: loss of £1.3 million). The trading EBITDA (earnings before interest, tax, depreciation and amortisation) for the six months to 30 June 2010 was £1.6 million (H1 2009: £0.3 million) (see note 6).

The Group is exposed to the US Dollar through its operating business in the USA and from UK exports to China. Of the 5.3% increase in revenue from the first half of 2009 to that in 2010, the underlying growth of the business was 7.6% offset by the weakening of the US Dollar against Pound Sterling which contributed to a reduction in revenue of 2.3%.

The non-cash finance charge for the period includes the impact of fair valuing derivatives of £1.8 million (H1 2009: gain on fair valuing derivatives £1.6 million). The underlying interest cost was £0.3 million (H1 2009: £0.7 million).

Interim statement (continued)

The Group incurred a charge from discontinued operations of £3.4 million relating to the closure of the Nviro operations (£0.6 million) and impairment of goodwill associated with the reverse acquisition (£2.8 million) (see note 10).

Taxation

There is a trading tax charge for the period of £0.4 million (H1 2009: £0.7 million), which represents overseas taxation payable in the USA (see note 9), and a deferred tax credit of £0.5 million (H1 2009: deferred tax charge of £0.4 million), which relates to the revaluation of derivative contracts to fair value. The Group has significant tax losses in the UK, which are available to offset future taxable profits of Hayward Tyler's UK operations.

Order book

Hayward Tyler's order book, which represents all outstanding projects that have been contracted but not yet delivered, was £27.3 million at 30 June 2010 (H1 2009: £ 36.1 million). The order book consists of £16.0 million relating to the manufacture of new units and £11.3 million relating to the services operations.

The number of months' orders represents close to optimal levels. As previously outlined, in the case of the manufacture of new units, there has been a deliberate reduction of the order book from December 2008 as the business focuses on taking in higher margin contracts and reducing the lead time for customer shipments. In the case of the services operations, management have to balance the requirement to remain responsive to the needs of customers with the security of a strong order book.

Statement of financial position

Total equity increased by £5.0 million in the six month period ended 30 June 2010 driven by the issue of shares and the profit from continuing operations in the period offset by the loss from discontinuing the Nviro operations and the impact of fair valuing derivatives.

Net debt decreased from £13.7 million at 31 December 2009 to £10.5 million at 30 June 2010 (see note 17) in line with expectation and reflects proceeds from the issue of shares and cash in Nviro offset by the costs of the reverse acquisition, which were accrued at year end, closure costs of the Nviro operations and reduction in the level of progress payments from customers (see *Cash flow and treasury* below).

Cash flow and treasury

Cash flow and working capital management is a key area of focus for Group and operational management. As Southbank the Group has previously written about the impact of a difficult credit climate together with a general squeeze on working capital and the first six months of 2010 have been no different. In addition, the lower level of progress payments from customers referred to above, which reflects market conditions, the mix of new orders and the difference between typical contract terms in India and China, has also impacted liquidity. Accordingly, the Group is seeking alternative means to fund working capital for longer term manufacturing contracts and has identified trade finance arrangements, in addition to existing lines, capable of supporting its export business. These arrangements, which match inventory with trade finance borrowings, would effectively replace operational gearing, provided by progress payments from customers, with financial gearing. Accordingly, while net asset levels would not be impacted, net debt could be higher in the future if there is a prevalence of contracts that do not provide progress payments.

The foreign exchange risk management policy of the Group is to hedge its transaction exposures (i.e. cash flows from UK exports and imports together with the repatriation of net profits from the operating business in the USA) on a rolling 12 month basis. Gains and losses relating to movements in fair values of the hedging products, which are non-cash items, are recorded in the income statement. Such a loss has occurred during the six month period and the effect has been excluded in arriving at underlying profit before tax in the consolidated income statement.

Interim statement (continued)

Pensions

Within the UK the Group operates a defined benefit plan, with benefits linked to final salary, and a defined contribution plan. With effect from 1 June 2003 the defined benefit plan was closed to accruals and new UK employees offered membership of the defined contribution plan. The majority of UK employees are members of one of these arrangements.

A full valuation of the defined benefit plan is produced every three years (the last one being as at 1 January 2008) and updated annually to 31 December by independent qualified actuaries. The net obligation was £2.8 million at 31 December 2009.

Further comment on pensions is given in note 12 to these financial statements.

Consolidated interim income statement

Notes	Unaudited Six months to 30 June 2010			Unaudited Six months to 30 June 2009			Audited Year to 31 December 2009		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	Trading	Non-trading	Total	Trading	Non-trading	Total	Trading	Non-trading	Total
Revenue	18,572	-	18,572	17,638	-	17,638	36,807	-	36,807
Cost of sales	(12,566)	-	(12,566)	(12,266)	-	(12,266)	(25,123)	-	(25,123)
Gross profit	6,006	-	6,006	5,372	-	5,372	11,684	-	11,684
Gross margins	32.3%	-	32.3%	30.5%	-	30.5%	31.7%	-	31.7%
Other income	-	16	16	10	-	10	20	-	20
Operating charges	(4,739)	-	(4,739)	(5,341)	-	(5,341)	(9,371)	(1,187)	(10,558)
Operating profit/(loss)	1,267	16	1,283	41	-	41	2,333	(1,187)	1,146
Finance income	-	-	-	-	-	-	20	-	20
Finance costs	(288)	(35)	(323)	(677)	-	(677)	(999)	(2,333)	(3,332)
(Loss)/gain on fair value of derivatives	-	(1,744)	(1,744)	-	1,625	1,625	-	1,618	1,618
Profit/(loss) before tax	979	(1,763)	(784)	(636)	1,625	989	1,354	(1,902)	(548)
Taxation	(394)	488	94	(695)	(395)	(1,090)	290	391	681
Profit/(loss) for the period from continuing operations	585	(1,275)	(690)	(1,331)	1,230	(101)	1,644	(1,511)	133
Loss from discontinued operations	-	(3,379)	(3,379)	-	-	-	-	-	-
Profit/(loss) for the period	585	(4,654)	(4,069)	(1,331)	1,230	(101)	1,644	(1,511)	133

Consolidated interim income statement (continued)

	Notes	Unaudited			Unaudited			Audited		
		Six months to 30 June 2010			Six months to 30 June 2009			Year to 31 December 2009		
		£000	£000	£000	£000	£000	£000	£000	£000	£000
		Trading	Non-trading	Total	Trading	Non-trading	Total	Trading	Non-trading	Total
Basis earnings per share (pence)										
From continuing obligations	8	2.33	(5.09)	(2.76)	(2.01)	1.86	(0.15)	2.49	(2.29)	0.20
From discontinued obligations		-	(13.50)	(13.50)	-	-	-	-	-	-
Diluted earnings per share (pence)*										
From continuing operations	8	2.33	(5.09)	(2.76)	(2.01)	1.81	(0.15)	2.43	(2.29)	0.20
From discontinued operations		-	(13.50)	(13.50)	-	-	-	-	-	-

* Anti-dilutive where there is a loss, therefore loss per share does not increase

Consolidated interim statement of comprehensive income

	Unaudited Six months to 30 June 2010 £000	Unaudited Six months to 30 June 2009 £000	Audited Year to 31 December 2009 £000
(Loss) /profit for the period	(4,069)	(101)	133
Other comprehensive income:			
Exchange differences on translating foreign operations	194	(304)	(890)
Actuarial loss on post- retirement employee benefits	-	-	(2,205)
Deferred tax relating to post- retirement employee benefits	-	-	585
Total comprehensive (loss) for the period	(3,875)	(405)	(2,377)

Consolidated interim statement of financial position

	Notes	Unaudited At 30 June 2010 £000	Unaudited At 30 June 2009 £000	Audited At 31 December 2009 £000
Non-current assets				
Goodwill	10	2,219	2,288	2,219
Other intangible assets		1,179	1,278	1,243
Property, plant and equipment		10,343	10,269	10,270
Deferred tax assets		6,409	3,128	5,872
Other receivables		-	-	36
		<u>20,150</u>	<u>16,963</u>	<u>19,640</u>
Current assets				
Inventories		6,275	3,640	6,114
Trade and other receivables		7,611	8,394	8,949
Other current assets		526	125	396
Disposal group – assets held for sale	18	278	-	-
Current tax assets		-	-	82
Cash and cash equivalents	17	117	15	781
		<u>14,807</u>	<u>12,174</u>	<u>16,322</u>
Total assets		<u>34,957</u>	<u>29,137</u>	<u>35,962</u>
Current liabilities				
Trade and other payables		5,432	3,595	5,122
Borrowings	17	4,396	4,856	7,509
Provisions		1,092	1,455	1,350
Current tax liabilities		60	236	25
Other liabilities	11	7,993	6,198	11,901
Financial liabilities - derivatives		3,507	1,734	1,763
		<u>22,480</u>	<u>18,074</u>	<u>27,670</u>
Net current liabilities		<u>(7,673)</u>	<u>(5,900)</u>	<u>(11,348)</u>
Total assets less current liabilities		<u>12,477</u>	<u>11,063</u>	<u>8,292</u>
Non-current liabilities				
Borrowings	17	6,219	9,900	7,009
Pension and other employee obligations	12	2,761	669	2,761
		<u>8,980</u>	<u>10,569</u>	<u>9,770</u>
Net assets		<u>3,497</u>	<u>494</u>	<u>(1,478)</u>
Equity				
Called up share capital	13	250	66	66
Share premium account		19,757	16,017	16,017
Merger reserve		14,502	4,585	4,585
Reverse acquisition reserve		(19,973)	(14,982)	(14,982)
Foreign currency translation reserve		(20)	372	(214)
Retained earnings		(11,019)	(5,564)	(6,950)
Total equity		<u>3,497</u>	<u>494</u>	<u>(1,478)</u>

Consolidated cash flow statement

	Unaudited Six months to 30 June 2010 £000	Unaudited Six months to 30 June 2009 £000	Audited Year to 31 December 2009 £000
Cash flows from operating activities			
(Loss)/profit after taxation	(4,069)	(101)	133
Adjustment for:			
Tax expense	(94)	1,090	(681)
Finance costs	2,067	(948)	1,714
Investment income	-	-	(20)
Impairment of goodwill	2,835	-	-
Amortisation of intangible assets	74	73	150
Depreciation of tangible fixed assets	244	222	481
Loss on disposal of plant	-	-	62
Revision to contingent consideration	-	-	69
Foreign exchange differences	121	(362)	(844)
Changes in working capital:			
Movement in inventories	(161)	1,892	(582)
Movement in trade and other receivables	1,313	2,124	1,243
Movement in trade and other payables	(5,198)	(2,805)	2,856
Movement in provisions	(258)	(473)	(578)
Cash generated from operations	(3,126)	(712)	4,003
Taxes paid	(264)	(557)	(1,015)
Interest paid	(288)	(641)	(1,844)
Net cash used in operating activities	(3,678)	(486)	1,144
Cash flows from investing activities			
Payment of deferred consideration relating to acquisition of Hayward Tyler Group	-	(150)	(150)
Purchase of other intangible assets	-	-	(42)
Purchase of property, plant and equipment	(244)	(150)	(518)
Cash on acquisition	2,670	-	-
Interest received	-	-	2
Net cash arising from/(used in) investing activities	2,426	(300)	(708)
Cash flows from financing activities			
Repayment of bank loans	(3,230)	(147)	(599)
Proceeds from issue of share capital	3,827	-	-
Repayment of finance leases	(9)	(41)	(45)
Net cash generated from/(used in) financing activities	588	(188)	(644)
Net decrease in cash and cash equivalents	(664)	(974)	(208)
Cash and cash equivalents at beginning of period	781	989	989
Cash and cash equivalents at end of period	117	15	781

Consolidated statement of changes in equity

Unaudited	Share capital £000	Share premium £000	Merger reserve £000	Reverse acquisition £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2010	66	16,017	4,585	(14,982)	(214)	(6,950)	(1,478)
Issue of shares during period	53	3,740	-	-	-	-	3,793
Issue of shares on acquisition	131	-	9,917	-	-	-	10,049
Movement in reverse acquisition reserve	-	-	-	(4,991)	-	-	(4,991)
Transaction with owners	184	3,740	9,917	(4,991)	-	-	8,850
Loss for the period	-	-	-	-	-	(4,069)	(4,069)
Other comprehensive income/(loss):							
Profit on translation of overseas subsidiaries	-	-	-	-	194	-	194
Total comprehensive income/(loss)	-	-	-	-	194	(4,069)	(3,875)
Balance at 30 June 2010	250	19,757	14,502	(19,973)	(20)	(11,019)	3,497

Consolidated statement of changes in equity (continued)

Unaudited	Share capital £000	Share premium £000	Merger reserve £000	Reverse acquisition £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2009	66	16,017	4,585	(14,982)	676	(5,463)	899
Loss for the period	-	-	-	-	-	(101)	(101)
Other comprehensive income/(loss):							
Loss on translation of overseas subsidiaries	-	-	-	-	(304)	-	(304)
Total comprehensive income/(loss)	-	-	-	-	(304)	(101)	(405)
Balance at 30 June 2009	66	16,017	4,585	(14,982)	372	(5,564)	494
Audited							
Balance at 1 January 2009	66	16,017	4,585	(14,982)	676	(5,463)	899
Profit for the period	-	-	-	-	-	133	133
Other comprehensive income/(loss):							
Actuarial loss for the period on pension scheme	-	-	-	-	-	(2,205)	(2,205)
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	585	585
Loss on translation of overseas subsidiaries	-	-	-	-	(890)	-	(890)
Total comprehensive loss	-	-	-	-	(890)	(1,487)	(2,377)
Balance at 31 December 2009	66	16,017	4,585	(14,982)	(214)	(6,950)	(1,478)

Notes to the interim financial statements

1. Nature of operations

The Group through its wholly owned subsidiary, Hayward Tyler Group Limited, manufactures and services a comprehensive range of fluid filled electric motors and pumps. These units are custom designed to meet the most demanding of applications and environments. Focused on the power generation (conventional and nuclear), offshore oil & gas (topside and deep subsea) markets, the Company is a market leader in its technology solutions. Furthermore, Hayward Tyler supplies and services a range of mission critical motors and pumps for the Royal Navy submarine fleet in the UK. The Company also undertakes service, overhaul and upgrading of third party motor and pump equipment across all sectors.

In addition to the head office in Luton, England, Hayward Tyler has manufacturing and service support facilities in Kunshan, China; Delhi, India; East Kilbride, Scotland and Vermont, USA. These facilities and staff provide cover 24 hours a day 7 days a week for maintenance, overhaul and repair.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements of Specialist Energy Group plc are for the six months ended 30 June 2010. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of Southbank UK plc ("Southbank") for the year ended 31 December 2009 and of the Group for the three months ended 31 December 2009. The financial information for the year ended 31 December 2009 set out in these interim consolidated financial statements does not constitute statutory accounts as defined in the Companies Act 1931 to 2004. The Group's statutory financial statements for the year ended 31 December 2009 have been filed with the Companies Registry. The auditor's report on those financial statements was unqualified and did not contain a statement under section 15.4 of the Isle of Man Companies Act 1982.

3. Accounting policies

The condensed interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2009, except for the adoption of the following standards as of 1 January 2010:

- IFRS 3 *Business Combinations* (Revised 2008)
- IAS 27 *Consolidated and Separate Financial Statements* (Revised 2008)
- Improvements to IFRSs 2009.

There is no significant effect on the current period or prior periods arising from the first time adoption of these new requirements. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed interim consolidated financial statements.

4. Significant transactions

On 15 January 2010 the Company undertook a share re-organisation. The existing share capital at that time of 66,093,190 ordinary shares of 0.1p each was sub-divided into 6,609,319 ordinary shares of 1p each ("Share Consolidation").

On 19 January 2010 the Company changed its name to Specialist Energy Group plc.

On 19 January 2010, prior to the transaction outlined below, a total of 5,263,200 new ordinary shares of 1p each were issued at 76p per share, raising gross proceeds ("Issue Proceeds") of £4.0 million before expenses.

The Boards of the Company and Southbank reached agreement on the terms of a recommended offer ("the unconditional offer") to acquire the entire issued share capital of Southbank. Completion of the acquisition of Southbank took place on 20 January 2010.

Notes to the interim financial statements (continued)

4. Significant transactions (continued)

Based on the placing price of 76p per Nviro share, post the share re-organisation outlined above, the entire issued and to be issued share capital of Southbank was valued at £10.05 million.

On 25 January 2010 £3.0 million of the Issue Proceeds were used to repay borrowings of Redglade Investments Limited, a wholly owned subsidiary of Southbank.

Following the acquisition and upon re-admittance to AIM, the Company's issued ordinary share capital consisted of 19,957,265 ordinary shares of 1p each. This figure had risen to 25,026,160 on acceptance of the unconditional offer which entitled the Company to acquire compulsorily any remaining shares in Southbank.

This acquisition has been accounted for in these condensed consolidated interim financial statements as a reverse acquisition in accordance with IFRS 3 *Business Combinations* (Revised 2008). As a result these interim financial statements reflect a continuation of the legal subsidiary's financial statements, being those of Southbank.

Merger reserve

The merger reserve of £14.5 million includes £9.9 million arising as a result of the acquisition of Southbank during the period to 30 June 2010. The merger reserve represents the difference between the nominal value of the share capital issued by the Company and their fair value at 20 January 2010, the date of the acquisition.

Reverse acquisition reserve

The reverse acquisition reserve arises as a result of the method of accounting for the acquisition of Southbank UK plc by the Company. In accordance with IFRS 3 *Business Combinations* (Revised 2008) the acquisition has been accounted for as a reverse acquisition.

5. Segmental reporting

Management currently identifies the Group's two service lines, Manufacturing and Services as operating segments.

The activities undertaken by the Manufacturing segment include the manufacture of pumps and motors. The activities of the Service division include the servicing and repair of a wide range of pumps and motors.

The measurement policies the Group used for segment reporting are the same as those used in its financial statements, except that:

- post-employment benefit expenses;
- expenses relating to share-based payments; and
- research costs relating to new business activities

are not included in arriving at the operating profit of the operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. No asymmetrical allocations have been applied between segments.

Notes to the interim financial statements (continued)

5. Segmental reporting (continued)

Segmental information can be analysed as follows for the reporting periods under review:

	Manufacturing £000	Services £000	Total £000
Six months to 30 June 2010			
Revenue			
From external customers	9,840	9,321	19,161
Inter segments	(62)	(527)	(589)
	9,778	8,794	18,572
Cost of materials	(7,341)	(5,270)	(12,611)
Depreciation and amortisation	(153)	(110)	(263)
Other expenses	(1,632)	(2,217)	(3,849)
Segment operating profit	652	1,197	1,849
Segment assets	9,902	6,647	16,549
	Manufacturing £000	Services £000	Total £000
Six months to 30 June 2009			
Revenue			
From external customers	7,573	10,835	18,408
Inter segments	(382)	(388)	(770)
	7,191	10,447	17,638
Cost of materials	(6,697)	(5,843)	(12,540)
Depreciation and amortisation	(217)	(74)	(291)
Other expenses	(1,443)	(1,963)	(3,406)
Segment operating (loss)/profit	(1,166)	2,567	1,401
Segment assets	9,634	6,426	16,060
	Manufacturing £000	Services £000	Total £000
Year to 31 December 2009			
Revenue			
From external customers	15,651	22,952	38,603
Inter segments	(1,495)	(321)	(1,816)
	14,156	22,631	36,787
Cost of materials	(12,272)	(10,694)	(22,966)
Depreciation and amortisation	(319)	(242)	(561)
Other expenses	(3,091)	(4,131)	(7,222)
Segment operating (loss)/profit	(1,526)	7,564	6,038
Segment assets	4,679	19,397	24,076

Notes to the interim financial statements (continued)

5. Segmental reporting (continued)

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Segment revenues			
Total segment revenues	19,161	18,408	38,603
Rental income	-	-	20
Elimination of intersegmental revenues	(589)	(770)	(1,816)
Group revenues	18,572	17,638	36,807
Segment profit/(loss)			
Segment operating profit	1,849	1,401	6,038
Rental income	16	10	20
Post employment benefit expenses	-	-	(169)
Other operating income not allocated	(582)	(1,370)	(3,751)
Elimination of intersegment profits	-	-	(992)
Group operating profit	1,283	41	1,146
Finance costs	(2,067)	948	(1,714)
Finance income	-	-	20
(Loss)/profit before tax of continuing operations	(784)	989	(548)
Total segment assets	16,549	16,060	24,076
Group	23,514	25,570	27,733
Consolidation	(4,922)	(12,493)	(15,847)
	35,141	29,137	35,962

Notes to the interim financial statements (continued)

5. Segmental reporting (continued)

The Group's revenues from external customers and its non-current assets (other than goodwill and deferred tax assets) are divided into the following geographical areas:

	Six months to 30 June 2010		Six months to 30 June 2009		Year to 31 December 2009	
	£000 Revenue	£000 Non- current assets	£000 Revenue	£000 Non- current assets	£000 Revenue	£000 Non- current assets
United Kingdom	2,097	10,787	2,642	10,946	6,548	10,800
USA	7,240	662	6,823	520	11,548	665
Other countries	9,235	74	8,174	81	18,711	84
	<u>18,572</u>	<u>11,523</u>	<u>17,638</u>	<u>11,547</u>	<u>36,807</u>	<u>11,549</u>

Revenues from external customers in the Group's domicile, United Kingdom, as well as its major market the USA have been identified on the basis of the customers' geographical location. Non-current assets are allocated based on their physical location.

6. EBITDA

Earnings before interest, tax, depreciation and amortisation of the trading business is as follows:

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
EBITDA			
Operating profit - trading	1,267	41	2,333
Depreciation and amortisation	318	295	631
	<u>1,585</u>	<u>336</u>	<u>2,964</u>

7. Finance costs

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Trading			
Interest payable	288	677	999
Non-trading			
Finance charges	35	-	2,333
Loss/(gain) arising on fair value of derivative contracts	1,744	(1,625)	(1,618)
	<u>2,067</u>	<u>948</u>	<u>1,714</u>

Finance charges of £35,000 (H1 2009: £nil) represent non-trading expenses and relate to the present value of bank fees for the two year committed borrowing facilities, substantially all of which were provided for in 2009. The loss/(gain) arising on fair value of derivative contracts is a mark-to-market and a non-cash item.

Notes to the interim financial statements (continued)

8. Loss per share

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

	Six months to 30 June 2010	Six months to 30 June 2009	Year to 31 December 2009
Earnings per share calculations only			
(Loss)/profit (£000)			
Continuing operations	(690)	(101)	133
Discontinued operations	(3,379)	-	
Weighted average number of shares (used for basic loss per share)	25,026,160	66,093,190	66,093,190
Dilutive effect of options*	82,920	1,761,202	1,631,196
Weighted average number of shares (used for diluted loss per share)	25,109,080	67,854,392	67,724,386
Basic earnings per share (expressed in pence)			
Continuing operations	(2.76)	(0.15)	0.20
Discontinued operations	(13.50)	-	-
Diluted earnings per share (expressed in pence)			
Continuing operations	(2.76)	(0.15)	0.20
Discontinued operations	(13.50)	-	-

* Anti-dilutive in H1 2010 and H1 2009, therefore loss per per share does not increase

Notes to the interim financial statements (continued)

9. Tax

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Overseas taxation	394	695	1,015
Deferred tax:			
Revaluation of derivative contracts to fair value	(488)	463	453
Acceleration of capital allowances	-	-	19
Losses available for offset against future taxable income	-	-	(1,632)
Retirement benefit obligations	-	(187)	(585)
Less movement recorded in changes of equity	-		585
Other temporary differences	-	119	8
Amounts over provided in prior years	-	-	(564)
Deferred tax	(488)	395	(1,696)
Total tax (credit)/charge reported in the interim income statement	(94)	1,090	(681)

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

10. Additions to and impairment of goodwill

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Gross carrying amount			
Balance at beginning of period	2,219	2,288	2,288
Revision to contingent consideration	-	-	(69)
Additions (see note 15)	2,835	-	-
Balance at end of period	5,054	2,288	2,219
Accumulated impairment			
Balance at beginning of period	-	-	-
Impairment loss	(2,835)	-	-
Balance at end of period	(2,835)	-	-
Carrying amount at the end of the period	2,219	2,288	2,219

Notes to the interim financial statements (continued)

10. Additions to and impairment of goodwill (continued)

An impairment charge of £2.8 million (H1 2009: £nil) has been identified in the period against the goodwill created by the reverse acquisition. This is in line with the Group's stated intention to focus its resources on the Hayward Tyler business as well as the impairment to property, plant and equipment and intangible assets relating to the Nviro technologies that is reflected in the financial statements of the Company for the 12 months to 30 September 2009 and for the 3 months to 31 December 2009.

11. Other liabilities

Other liabilities can be summarised as follows:

	As at 30 June 2010 £000	As at 30 June 2009 £000	As at 31 December 2009 £000
Accruals and deferred income	7,870	6,098	11,894
Other payables	123	100	7
Consideration	-	-	(69)
	7,993	6,198	11,901

The reduction in accruals and deferred income from 31 December 2009 to 30 June 2010 was driven by the payment of non-trading charges of £1.5 million, related to the costs of the reverse acquisition including bank charges, and a reduction in progress payments from customers of £2.6 million.

12. Pension

No interim valuation of the pension liability has been carried out at 30 June 2010. As a result no actuarial gain or loss has been recognised in the consolidated statement of other comprehensive income and no change has been made to the net obligation for pensions recognised in the statement of financial position from that at 31 December 2009. The gains and losses for the full year together with any surplus or deficit at the year end will be presented in the Annual Report and Accounts of the Group for the year to 31 December 2010.

The net obligation for pensions recognised in the statement of financial position as at 31 December 2009 was £2.8 million. This obligation was determined using actuarial assumptions developed by management under consideration of expert advice provided by Alexander Forbes, independent actuarial advisers. The assumptions included a discount rate of 5.9%, which was based on prevailing relevant bond yields at the time, and an inflation rate of 3.5% per annum, based on the market's expectation of future inflation at that time. As at 30 June 2010, such bond yields have fallen to around 5.4%, which if used as the discount rate would give rise to an increase in the pension liability, and the expectation for inflation has fallen to 3.2%, which if used as the inflation rate would give rise to a decrease in the pension liability. Of these two changes the fall in the discount rate has the greater impact on the pension liability.

13. Share capital

On 15 January 2010 the Company undertook a share re-organisation. At that time the existing authorised share capital of 400,000,000 ordinary shares and issued share capital of 66,093,190 ordinary shares of 0.1p each were consolidated into 40,000,000 authorised ordinary shares and 6,609,319 issued ordinary shares respectively of 1p each ("Share Consolidation"). On 19 January 2010, prior to the transaction outlined below, a total of 5,263,200 new ordinary shares of 1p each were issued at 76p per share, raising gross proceeds of £4.0 million before expenses. On 20 January 2010, the Company completed the reverse acquisition that led to the issue of 13,153,641 new ordinary shares of 1p each. The premium

Notes to the interim financial statements (continued)

13. Share capital (continued)

arising on this share issue of £9.9 million has been reflected in the merger reserve due to the application of merger relief.

Shares authorised and issued are summarised below.

	Six months to 30 June 2010 Number	Six months to 30 June 2010 £000	Six months to 30 June 2009 Number	Six months to 30 June 2009 £000	Year to 31 December 2009 Number	Year to 31 December 2009 £000
Allotted, called up and fully paid:						
At beginning of period	66,093,190	66	66,093,190	66	66,093,190	66
Share Consolidation*	(59,483,871)	-	-	-	-	-
Issued in period	5,263,200	53	-	-	-	-
Issue of shares on acquisition	13,153,641	131	-	-	-	-
At end of period	25,026,160	250	66,093,190	66	66,093,190	66

* See narrative in note 13.

14. Share options

Details of the share options outstanding at 30 June 2010 are set out below.

	At 30 June 2010		At 30 June 2009		At 31 December 2009	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at beginning of period	1,631,196	0.316	2,638,055	0.387	2,638,055	0.387
Share Consolidation*	(1,468,077)	-	-	-	-	-
Options granted	-	-	260,000	0.073	260,000	0.073
Options exercised	-	-	-	-	(6)	0.100
Options lapsed	(80,199)	0.247	(1,136,853)	0.407	(1,266,853)	0.414
Outstanding at end of period	82,920	0.384	1,761,202	0.328	1,631,196	0.316

* See narrative in note 13.

Notes to the interim financial statements (continued)

15. Business combination

On 20 January 2010, Specialist Energy Group plc acquired 100% of the issued share capital of Southbank by means of a share-for-share exchange whereby the shareholders of Southbank received shares in the Company. In preparing the consolidated interim financial statements, Southbank has been deemed to be the acquirer and the Company, the legal parent, has been deemed to be the acquiree.

In accordance with IFRS 3 *Business Combinations* (Revised 2008), this transaction has been accounted for as a reverse acquisition. The key features of this basis of consolidation are:

- The consolidated IFRS financial statements are a continuation of the financial statements of Southbank and the retained earnings recognised are a continuation of those of Southbank immediately before the business combination.
- The consolidated income statement includes the results of Southbank for all periods presented and include the results of the Company from 20 January 2010 onwards.
- The assets and liabilities of Southbank are measured based on their pre-combination carrying amounts.
- The equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, Specialist Energy Group plc. However, the total issued equity instruments reflect that of the legal subsidiary, Southbank. To achieve this position a reverse acquisition reserve of £19.974 million has been created, being the difference between the required Group equity instruments and the reported equity instruments of the parent.
- Specialist Energy Group plc has been consolidated from the date of the reverse acquisition using the fair value of its net assets and liabilities at that date. The cost of the acquisition was £5.023 million and goodwill of £2.835 million arose on the acquisition.

Net assets acquired – Specialist Energy Group plc (formerly Nviro Cleantech plc)	Book value and provisional fair value £000
Property, plant and equipment	10
Other receivables	95
Cash and cash equivalents	2,670
Disposal group – assets held for sale	278
Trade and other payables	(816)
Interests in joint ventures	(49)
	<hr style="width: 100%; border: 0.5px solid black;"/>
	2,188
Goodwill	<hr style="width: 100%; border: 0.5px solid black;"/>
	2,835
Total consideration	<hr style="width: 100%; border: 0.5px solid black;"/>
	5,023

The book value of the net assets acquired was considered to represent provisional fair value. The net assets acquired were deemed to be those in existence at 31 December 2009. The consideration was satisfied by the issue of 100* shares of the Company for every 7,149 shares of Southbank. Total acquisition expenses of £780,000 were expensed by the Company across the periods to 31 December 2009.

* *post the Share Consolidation*

Notes to the interim financial statements (continued)

16. Discontinued operations

The amount presented in the consolidated interim income statement under discontinued operations relates to the clean technology operations of Nviro, which have been closed down. This charge includes the closure of the operations (£0.6 million) and an impairment charge of £2.8 million representing an impairment of all of the goodwill arising from the reverse acquisition.

17. Net debt

Net debt can be analysed as follows:

	As at 30 June 2010 £000	As at 30 June 2009 £000	As at 31 December 2009 £000
Cash	117	15	781
Current borrowings	(4,396)	(4,856)	(7,509)
Non-current borrowings	(6,219)	(9,900)	(7,009)
	(10,498)	(14,741)	(13,737)

As part of the reverse acquisition, £3.0 million of the term borrowings of Southbank were prepaid and two year committed borrowing facilities were provided to the Group. These facilities include a revolving credit facility of £4.35 million and term debt of £6.6 million. In addition, the Group has a number of other facilities including £0.6 million term borrowings together with a local overdraft arrangement, bonds and guarantees and foreign exchange facilities.

Current borrowings represent borrowings under the revolving credit facility together with the short term element of long term borrowings. Non-current borrowings include £0.8 million at a fixed rate of interest of 6.515% and £5.8 million with an interest rate swap attached that converts borrowings to a fixed rate of interest of 5.87%. The remaining term borrowings of £0.6 million have a floating rate of interest.

18. Disposal group – assets held for sale

In the financial statements for the period to 31 December 2009, the Company stated its intention to dispose of the tangible and intangible assets relating to its clean fuels technology including Vertus. These assets have been classified as a disposal group held for sale and presented separately in the statement of financial position.

In the period since 30 June 2010 the Vertus tangible assets have been sold. Of the remaining intangible assets, discussions are ongoing with a number of parties and at present the proceeds of that disposal are expected to either equal or exceed their book value and, accordingly, no impairment losses have been recognised on the classification of these assets as held for sale.