

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 2011

Specialist Energy Group plc, the specialist engineering group, today announces its interim results for the six month period ended 30 June 2011. The results include the contribution from its operating subsidiary, Hayward Tyler Group Limited (“Hayward Tyler”), a market leader in the design, manufacture and service of critical application pumps and motors to the power generation and oil and gas markets.

Financial Highlights:

- Order intake increased by 20% to £16.5 million (H1 2010: £13.8 million);
- H1 revenues of £14.4 million decreased mainly due to the manufacturing business (H1 2010: £18.1 million*);
- Gross profit margin increased to 34.1% (H1 2010: 32.3%) reflecting higher proportion of aftermarket business;
- EBITDA of £0.8 million (H1 2010: £1.4 million*);
- Operating profit of £0.5 million (H1 2010: £1.1 million*);
- Net debt decreased to £9.3 million (H1 2010: £10.5 million) but up from year end as a result of a temporary increase in working capital;
- Adjusted pre tax profits of £0.2m (H1 2010: £1.0m).

*measured on a like for like basis after the impact of foreign exchange

Business Highlights:

- Over 80% of revenues derived from the power generation and oil & gas markets;
- Higher margins being driven by the aftermarket business with the trend set to continue;
- New unit contract wins driven by oil & gas;
- Tyrihans subsea boosting system officially opened and GE Oil & Gas deep submersible motor shipped;
- Recovery in nuclear aftermarket activity post the Fukushima incident.

Ewan Lloyd-Baker, Chief Executive, commented:

“We are pleased that order intake levels in Hayward Tyler have continued to grow in line with previously stated expectations. It is also encouraging to see a further improvement in gross margin levels. However, it is disappointing that delays in the manufacturing division have impacted our half year numbers. We nevertheless expect to see a substantial improvement in the operational performance of the business in the second half though inevitably the timing of certain contracts completing will ultimately determine the scale of our full year results. That said, we believe that despite the global economic uncertainty the longer term outlook for the international market for power generation remains buoyant.

The Board is also pleased that the distractions, caused by receiving certain approaches are now over and that it can return its full focus to growing long term value growth for its shareholders.”

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Interim Statement

General Overview

Hayward Tyler's two divisions delivered contrasting results in the first half of 2011 as a strong performance in the aftermarket business was dragged down by weaker trading in the manufacturing business due to lower shipment and activity levels. Encouragingly gross profit margin improved overall reflecting the changing mix and the growing importance of aftermarket. This feature was also reflected in terms of order intake, which not only grew by 20% over the same period last year but was heavily weighted towards the aftermarket at 70% of the overall total. Order intake was £16.5 million, which resulted in an order book of £21.5 million at 30 June 2011. This was split between manufacturing (pumps and motors) at £6.7 million and aftermarket (spares, field service and repairs) at £14.8 million, which provides delivery coverage into Q2 of 2012.

As mentioned above the overall result of the Group in the first half was impacted mainly by lower revenues in the manufacturing business. Revenues of £6.1 million were lower than the previous year, primarily reflecting delays in shipping new units. The majority of these units have now been shipped but the delays have highlighted certain problems in the supply chain, particularly relating to the sourcing and quality of larger bespoke castings. As a result of this feature further investment has been made in the UK based operational team as announced in May. In addition, resource has been added to the procurement team, a supply chain training initiative introduced and a new enterprise resource planning system implemented. The lower levels of revenues resulted in a significant reduction in gross profit and an operating loss of £0.7 million.

On the aftermarket side of the business revenues decreased slightly to £8.3 million (decrease of £0.2 million on a like for like basis) but gross profit margin improved resulting in an operating profit of £1.9 million. This is particularly encouraging given the slowdown in the nuclear related aftermarket in the aftermath of the Fukushima earthquake in March, which after a steep decline has now recovered. The strong performance of the aftermarket business illustrates the benefit of having an installed base on which to provide a service offering.

Overall the Group generated an EBITDA of £0.8 million and an operating profit of £0.5 million in the period with management confident of a stronger performance in the second half.

Power Generation

Highlights of the first half include the shipment of various new units (both for conventional sub-critical and super-critical boiler applications) to India and China. Whilst there has been a temporary pause in new unit orders from both countries the longer term market fundamentals remain strong. In China the current five year plan is heavily focused on 'new energy', which includes cleaner forms of coal fired generation. 'Inefficient' plants are being phased out and whilst coal is falling in relative terms it is still the dominant fuel of power generation with an additional 260 gigawatts of coal fired generation due to be added by 2015. In India the next five year plan is focused on targeting a doubling of generating capacity over the current five year plan with the major constraint to achieving this likely to be availability of coal. Likewise there is a drive from all the major boiler manufacturers to focus on super-critical and ultrasuper-critical plants (which are more efficient and therefore more environmentally friendly). This move has the potential to benefit Hayward Tyler as the technology requires a greater amount of technical and design input initially which Hayward Tyler, given its brand, heritage and relevant expertise, is well placed to provide. Management is therefore anticipating an increase in order activity in 2012.

Progress continues to be made on the aftermarket side of the business with our growing operation in Kunshan, China, servicing the existing installed base. Closer to home work is being undertaken on a number of UK power installations, which includes the West Burton power station (owned and operated by EDF) that provides electricity to power 2 million homes.

Interim Statement (continued)

Nuclear

The aftermarket has recently picked up and, with Hayward Tyler's established track record in the nuclear market spanning over 50 years and with installed equipment in over 140 nuclear power stations worldwide, the Hayward Tyler brand remains a trusted and proven provider of mission critical equipment to this market. In the early part of the period Hayward Tyler shipped a US\$3.6 million contract of aftermarket spares to one of North America's largest producers and transporters of nuclear energy (and an existing customer) thus highlighting the benefits of being an original equipment manufacturer.

The improvement in the order intake is particularly encouraging given the terrible earthquake in Japan and corresponding incident at Fukushima in March. Quote activity immediately following this incident slowed significantly and had a knock-on impact for the wider nuclear market leading to delays and postponements in a number of new projects which, whilst not directly impacting the business, did have a negative impact on sentiment and therefore a reduction in aftermarket orders in the latter part of the period.

Oil & Gas

Highlights of the first half include an increased level of quote activity and new unit wins for a number of bespoke firewater and seawater lift pumps. As announced previously these include the Gudrun and Ekofisk fields in the North Sea with a total contract value of over £1.5 million. In addition, the shipment of the 3 megawatt subsea motor to GE for their subsea boosting research project was particularly encouraging. Hayward Tyler had previously shipped three similar units to Aker Solutions that were deployed operationally in the North Sea in the first half of the year. The Tyrihans field is operated by StatoilHydro and Aker estimate that the subsea boosting system can enhance recovery by over 19 million barrels of oil.

Outlook

With the majority of the delayed units now shipped the second half outlook for the manufacturing division is more encouraging with margins expected to improve albeit not to the levels achieved last year. The shift of the business towards higher margin aftermarket revenues resulting from a reduction in manufacturing activity does have an immediate impact on revenue and profit recognition. With the balance weighted towards the aftermarket this impact is expected to be one-off in nature with the underlying trend in the business moving towards higher returns.

The short term softening in new unit demand that Hayward Tyler has experienced in China and India is expected to be only temporary in nature with the longer term outlook for new build in both countries positive. Likewise, given the events earlier in the year it is encouraging to see activity levels in nuclear new-build increasing and this sector remains a critical part of the future energy plans of China, India, the UK and USA (all markets in which Hayward Tyler has a strong presence).

The Board expects to see a substantial improvement in the operational performance of the business in the second half driven by the higher margin aftermarket business. Management are currently focused on restoring the manufacturing division to profitability. While the Board remains confident and has visibility that the expected improvement will crystallise, as ever, the timing of certain contracts will be key in determining the full year result.

Group

On 3 May 2011, the Company announced that it had received certain approaches that may or may not lead to an offer for, or an acquisition of, the Company, noting that such discussions were at an early stage.

Before and during the offer period, the Board received a number of indicative proposals but it is the view of the Board that none of these were sufficiently compelling to recommend to shareholders. The Board has therefore terminated these discussions to allow management to

Interim Statement (continued)

focus all of its efforts on the on-going business for the purpose of creating long-term shareholder value as the Board continues to believe that the underlying fundamentals of the Hayward Tyler business and its strong position within niche growing energy markets remain the basis for longer term value growth.

The end of the offer period was announced on Monday 19 September 2011.

Finance Review

Basis of reporting

The Group financial statements in this report have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). 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, closing down Nviro and the non-cash fair valuing of derivative contracts.

Results overview

Revenue for the first half of 2011 decreased by 22% to £14.4 million (H1 2010: £18.6 million), driven by the manufacturing operations of Hayward Tyler. Gross profit margin increased to 34.1% (H1 2010: 32.3%), which delivered a trading operating profit of £0.5 million (H1 2010: £1.3 million). The trading EBITDA (earnings before interest, tax, depreciation and amortisation) for the period was £0.8 million (H1 2010: £1.6 million) (see note 7).

The Group is exposed to the US Dollar through its operating business in the USA and from UK exports to China. Of the £4.2 million decrease in revenue from H1 2010 to that in H1 2011, £0.5 million relates to the weakening of the US Dollar against Pound Sterling. On a like for like basis H1 2010 operating profit would have been £0.2 million lower. 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.

There was no non-trading operating charge in the first half of the year. The charge in 2010 relates to closing down the clean technology operations of Nviro, which included the final costs of the reverse acquisition (£0.1 million), closure of the Nviro operations (£0.8 million) and non-cash impairment of goodwill associated with the reverse acquisition (£2.8 million). 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 of £0.4 million (H1 2010: £1.7 million). The underlying interest cost was £0.3 million (H1 2010: £0.3 million).

There was a trading loss for the year of £0.3 million (H1 2010: trading profit of £0.6 million), which delivered a trading loss per share of 0.76 pence (H1 2010: trading earnings per share of 2.40 pence).

Taxation

There is a trading tax charge for the period of £0.5 million (H1 2010: £0.4 million), which has increased despite lower profits achieved in the period as a result of a non-cash deferred tax charge of £0.2 million relating to the reduction in rate of UK Corporation Tax to 26%. Following the announcement by the UK Government that the rate of UK Corporation Tax will be reduced by 1% per annum to 23%, the Company expects to incur such a deferred tax charge of around £0.2 million in each of 2011 to 2014 inclusive. The remainder of the tax charge represents tax payable on profits in the USA of £0.3 million (H1 2010: £0.4 million).

Borrowings

Net debt decreased to £9.3 million (H1 2010: £10.5 million) but has risen from year end by £2.5 million mainly as a result of a temporary increase in working capital. This increase reflects investment in export led contracts anticipated by the share issue in December, the

Interim Statement (continued)

delay in new units, which will unwind as units are shipped and revenue is collected, and the continuing difficult credit climate that has adversely impacted on supplier payment terms. Cash flow and working capital management remains a key area of focus for management throughout the Group.

The annual report for 2010 noted that the Group was working to establish new committed banking facilities that extended and increased borrowing lines. These facilities were expected to be activated during the first half of the year, subject to agreeing exit terms with the existing lender to the Group. No such agreement was forthcoming and the Board is continuing to work tirelessly to establish new banking facilities against the backdrop of a difficult banking market.

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 actuarial valuation of the defined benefit plan is produced every three years (the last one being as at 1 January 2008 with a revised valuation due to be completed no later than 31 March 2012), however, a valuation is prepared annually to 31 December for the purposes of the annual report by independent qualified actuaries. The net obligation at 31 December 2010 was £2.6 million.

Further comment on pensions is given in note 11 to these financial statements.

Consolidated interim income statement

Notes	Unaudited Six months to 30 June 2011			Unaudited Six months to 30 June 2010			Audited Year to 31 December 2010		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	Trading	Non-trading	Total	Trading	Non-trading	Total	Trading	Non-trading	Total
Revenue	14,429	-	14,429	18,572	-	18,572	38,546	-	38,546
Cost of sales	(9,508)	-	(9,508)	(12,566)	-	(12,566)	(25,075)	-	(25,075)
Gross profit	4,920	-	4,920	6,006	-	6,006	13,471	-	13,471
Gross profit margin	34.1%	-	34.1%	32.3%	-	32.3%	34.9%	-	34.9%
Other income	-	-	-	16	-	16	-	-	-
Operating charges	(4,402)	-	(4,402)	(4,739)	(3,379)	(8,118)	(9,886)	(3,715)	(13,601)
Operating profit/(loss)	518	-	518	1,283	(3,379)	(2,096)	3,585	(3,715)	(130)
Finance income	-	-	-	-	-	-	-	-	-
Finance costs	(317)	(28)	(345)	(288)	(35)	(323)	(637)	(109)	(746)
Loss on fair value of derivatives	-	(413)	(413)	-	(1,744)	(1,744)	-	(1,195)	(1,195)
Share of results of joint venture	2	-	2	-	-	-	(2)	-	(2)
Profit/(loss) before tax	203	(441)	(238)	995	(5,158)	(4,163)	2,946	(5,019)	(2,073)
Taxation	(472)	109	(363)	(394)	488	94	(920)	(15)	(935)
Profit/(loss) for the period	(269)	(332)	(601)	601	(4,670)	(4,069)	2,026	(5,034)	(3,008)

Consolidated interim income statement (continued)

	Notes	Unaudited Six months to 30 June 2011			Unaudited Six months to 30 June 2010			Audited Year to 31 December 2010		
		pence Trading	pence Non- trading	pence Total	pence Trading	pence Non- trading	pence Total	pence Trading	pence Non- trading	pence Total
Basic earnings per share	9	(0.76)	(0.93)	(1.69)	2.40	(18.66)	(16.26)	8.25	(20.50)	(12.25)
Diluted earnings per share (pence)*	9	(0.76)	(0.93)	(1.69)	2.39	(18.65)	(16.26)	8.23	(20.48)	(12.25)

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

Consolidated interim statement of financial position

	Notes	Unaudited At 30 June 2011 £000	Unaudited At 30 June 2010 £000	Audited At 31 December 2010 £000
Non-current assets				
Goodwill		2,219	2,219	2,219
Other intangible assets		1,021	1,179	1,098
Property, plant and equipment		10,395	10,343	10,393
Deferred tax assets		5,758	6,409	5,851
		<u>19,393</u>	<u>20,150</u>	<u>19,561</u>
Current assets				
Inventories		5,164	6,275	4,905
Trade and other receivables		8,204	7,611	8,219
Other current assets		452	526	534
Disposal group – assets held for sale		132	278	140
Current tax assets		66	-	60
Cash and cash equivalents		134	117	4,744
		<u>14,152</u>	<u>14,807</u>	<u>18,602</u>
Total assets		<u>33,545</u>	<u>34,957</u>	<u>38,163</u>
Current liabilities				
Trade and other payables		5,376	9,898	6,902
Borrowings		8,947	4,396	7,652
Provisions		1,677	1,092	1,211
Current tax liabilities		36	60	82
Other liabilities		2,485	3,527	3,748
Financial liabilities - derivatives		3,371	3,507	2,958
Current liabilities		<u>21,892</u>	<u>22,480</u>	<u>22,553</u>
Net current liabilities		<u>(7,740)</u>	<u>(7,673)</u>	<u>(3,951)</u>
Total assets less current liabilities		<u>11,653</u>	<u>12,477</u>	<u>15,610</u>
Non-current liabilities				
Borrowings		541	6,219	3,817
Pension and other employee obligations	11	2,649	2,761	2,649
Interest in joint venture		49	-	51
		<u>3,239</u>	<u>8,980</u>	<u>6,517</u>
Net assets		<u>8,414</u>	<u>3,497</u>	<u>9,093</u>
Equity				
Called up share capital	12	355	250	355
Share premium account		24,327	19,757	24,327
Merger reserve		14,502	14,502	14,502
Reverse acquisition reserve		(19,973)	(19,973)	(19,973)
Foreign currency translation reserve		(250)	(20)	(172)
Retained earnings		(10,547)	(11,019)	(9,946)
Total equity		<u>8,414</u>	<u>3,497</u>	<u>9,093</u>

Consolidated interim statement of comprehensive income

	Unaudited Six months to 30 June 2011 £000	Unaudited Six months to 30 June 2010 £000	Audited Year to 31 December 2010 £000
Loss for the period	(601)	(4,069)	(3,008)
Other comprehensive income/loss:			
Exchange differences on translating foreign operations	(78)	194	42
Actuarial loss on post- retirement employee benefits	-	-	17
Deferred tax relating to post- retirement employee benefits	-	-	(5)
Total comprehensive loss for the period	(679)	(3,875)	(2,954)

Consolidated interim 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 2011	355	24,327	14,502	(19,973)	(172)	(9,946)	9,093
Loss for the period	-	-	-	-	-	(601)	(601)
Other comprehensive income/(loss):							
Profit on translation of overseas subsidiaries	-	-	-	-	(78)	-	(78)
Total comprehensive income/(loss)	-	-	-	-	(78)	(601)	(679)
Balance at 30 June 2011	355	24,327	14,502	(19,973)	(250)	(10,547)	8,414

Consolidated interim 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 2010	66	16,017	4,585	(14,982)	214	(6,950)	(1,478)
Issue of shares during the 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 Other comprehensive income/(loss):	-	-	-	-	-	(4,069)	(4,069)
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 interim statement of changes in equity (continued)

Audited	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 the period	158	8,310	-	-	-	-	8,468
Issue of shares on acquisition	131	-	9,917	-	-	-	10,048
Movement in reverse acquisition reserve	-	-	-	(4,991)	-	-	(4,991)
Transaction with owners	289	8,310	9,917	(4,991)	-	-	13,525
Loss for the period	-	-	-	-	-	(3,008)	(3,008)
Actuarial gain for the period on pension scheme	-	-	-	-	-	17	17
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	(5)	(5)
Gain on translation of overseas subsidiaries	-	-	-	-	42	-	42
Total comprehensive income/(loss)	-	-	-	-	42	(2,996)	(2,954)
Balance at 31 December 2010	355	24,327	14,502	(19,973)	(172)	(9,946)	9,093

Consolidated cash flow statement

	Unaudited Six months to 30 June 2011 £000	Unaudited Six months to 30 June 2010 £000	Audited Year to 31 December 2010 £000
Cash flows from operating activities			
(Loss) after taxation	(601)	(4,069)	(3,008)
Adjustment for:			
Tax expense	364	(94)	935
Finance costs	758	2,067	1,941
Investment income	-	-	-
Impairment of goodwill	-	2,835	2,835
Amortisation of intangible assets	79	74	150
Depreciation of tangible fixed assets	252	244	559
Loss on disposal of property, plant and equipment	4	-	-
Foreign exchange differences	(87)	121	16
Changes in working capital:			
Movement in inventories	(259)	(161)	1,209
Movement in trade and other receivables	184	1,313	744
Movement in trade and other payables	(3,341)	(5,198)	(6,948)
Movement in provisions	466	(258)	(139)
Cash generated from operations	(2,181)	(3,126)	(1,706)
Taxes paid	(465)	(264)	(977)
Interest paid	(221)	(288)	(711)
Net cash used in operating activities	(2,867)	(3,678)	(3,394)
Cash flows from investing activities			
Purchase of property, plant and equipment	(245)	(244)	(661)
Cash on acquisition	-	2,670	2,670
Disposal of tangible assets	-	-	123
Net cash arising from/(used in) investing activities	(245)	2,426	2,132
Cash flows from financing activities			
Repayment of bank loans	(1,489)	(3,230)	(3,230)
Proceeds from issue of share capital	-	3,827	8,502
Repayment of finance leases	(9)	(9)	(47)
Net cash generated from financing activities	(1,498)	588	5,225
Net (decrease)/increase in cash and cash equivalents	(4,610)	(664)	3,963
Cash and cash equivalents at beginning of period	4,744	781	781
Cash and cash equivalents at end of period	134	117	4,744

Notes to the interim financial statements

1. General Information

Specialist Energy Group plc's consolidated financial statements are presented in Pounds Sterling (£), which is also the functional currency of the ultimate parent company.

The principal operating business of Specialist Energy Group plc is Hayward Tyler Group Limited ("Hayward Tyler"). Established in 1815 in the UK, Hayward Tyler designs, 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), oil & gas (topside and deep subsea) and industrial markets, Hayward Tyler 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. Hayward Tyler 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), in Delhi (India), in East Kilbride (Scotland) and in Vermont (USA). These facilities and staff provide cover 24 hours 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 2011. 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 Specialist Energy Group plc ("SEG") for the year ended 31 December 2010. The financial information for the year ended 31 December 2010 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 2010 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 2010.

4. Standards, amendments and interpretation to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the pronouncements will be adopted in the Group's financial statements for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Annual Improvements 2010 (effective from 1 July 2010 and later)

The IASB has issued Improvements to IFRS 2010 (2010 Improvements). Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1

Notes to the interim financial statements (continued)

4. Standards, amendments and interpretation to existing standards that are not yet effective and have not been adopted early by the Group (continued)

January 2011. The 2010 Improvements amend certain provisions of IFRS 3R, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Group's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

5. Joint Ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Jointly controlled entities are accounted for using the equity method. Investments in jointly controlled entities are carried in the balance sheet at the Group's share of the net assets of the joint venture, and the Group's share of profits or losses for each financial year are recognised in profit or loss.

6. Segmental reporting

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

The activities undertaken by the Manufacturing segment include the manufacture of pumps and motors. The activities of the Aftermarket division include the servicing of, and provision of spares for, a wide range of pumps and motors.

The measurement policies the Group uses 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. The measurement methods used to determine reported segment profit or loss are consistently applied. No asymmetrical allocations have been applied between segments.

Notes to the interim financial statements (continued)

6. Segmental reporting (continued)

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

	Manufacturing £000	Aftermarket £000	Total £000
Six months to 30 June 2011			
Segment revenues from:			
External customers	6,185	8,599	14,784
Inter segment	(39)	(316)	(355)
	<u>6,146</u>	<u>8,283</u>	<u>14,429</u>
Cost of sales	(5,285)	(4,161)	(9,446)
Depreciation and amortisation	(207)	(89)	(296)
Other expenses	(1,302)	(2,183)	(3,485)
Segment operating (loss) /profit	<u>(648)</u>	<u>1,850</u>	<u>1,202</u>
Segment assets	<u>7,396</u>	<u>8,228</u>	<u>15,624</u>
	Manufacturing £000	Aftermarket £000	Total £000
Six months to 30 June 2010			
Segment revenues from:			
External customers	9,840	9,321	19,161
Inter segment	(62)	(527)	(589)
	<u>9,778</u>	<u>8,794</u>	<u>18,572</u>
Cost of sales	(7,208)	(4,682)	(11,890)
Depreciation and amortisation	(153)	(110)	(263)
Other expenses	(1,632)	(2,217)	(3,849)
Segment operating profit	<u>785</u>	<u>1,785</u>	<u>2,570</u>
Segment assets	<u>9,902</u>	<u>6,647</u>	<u>16,549</u>
	Manufacturing £000	Aftermarket £000	Total £000
Year to 31 December 2010			
Segment revenues from:			
External customers	18,700	21,517	40,217
Inter segment	(84)	(1,587)	(1,671)
	<u>18,616</u>	<u>19,930</u>	<u>38,546</u>
Cost of sales	(13,507)	(11,071)	(24,578)
Depreciation and amortisation	(341)	(202)	(543)
Other expenses	(3,431)	(4,023)	(7,454)
Segment operating profit	<u>1,337</u>	<u>4,634</u>	<u>5,971</u>
Segment assets	<u>10,094</u>	<u>8,058</u>	<u>18,152</u>

Notes to the interim financial statements (continued)

6. Segmental reporting (continued)

	Six months to 30 June 2011 £000	Six months to 30 June 2010 £000	Year to 31 December 2010 £000
Segment revenues			
Total segment revenues	14,784	19,161	40,217
Rental income	-	-	-
Elimination of inter-segmental revenues	(355)	(589)	(1,671)
Group revenues	14,429	18,572	38,546
Segment profit			
Segment operating profit	1,202	2,570	5,971
Rental income	-	16	-
Post employment benefit expenses	(92)	(92)	(185)
Other operating income not allocated	(592)	(1,211)	(1,639)
Elimination of intersegment profits	-	-	(562)
Group trading operating profit	518	1,283	3,585
Non-trading cost associated with Nviro	-	(3,379)	(3,715)
Group operating profit/(loss)	518	(2,096)	(130)
Finance costs	(758)	(2,067)	(1,941)
Finance income	-	-	-
Share of results of joint venture	2	-	(2)
Group loss before tax	(238)	(4,163)	(2,073)
Segment total assets			
Total segment assets	15,624	16,549	18,155
Group	39,047	23,330	39,236
Consolidation	(20,788)	(4,922)	(19,228)
Group total assets	33,545	34,957	38,163

Notes to the interim financial statements (continued)

6. 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 2011		Six months to 30 June 2010		Year to 31 December 2010	
	£000 Revenue	£000 Non- current assets	£000 Revenue	£000 Non- current assets	£000 Revenue	£000 Non- current assets
United Kingdom	1,736	10,716	2,097	10,787	4,490	10,823
USA	4,928	641	7,240	662	14,683	606
Other countries	7,765	59	9,235	74	19,373	62
	<u>14,429</u>	<u>11,416</u>	<u>18,572</u>	<u>11,523</u>	<u>38,546</u>	<u>11,491</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.

7. EBITDA

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

	Six months to 30 June 2011 £000	Six months to 30 June 2010 £000	Year to 31 December 2010 £000
EBITDA			
Operating profit - trading	518	1,283	3,585
Depreciation and amortisation	331	318	709
	<u>849</u>	<u>1,601</u>	<u>4,294</u>

8. Finance costs

	Six months to 30 June 2011 £000	Six months to 30 June 2010 £000	Year to 31 December 2010 £000
Trading			
Interest payable	317	288	547
Finance costs of pension	-	-	90
Non-trading			
Finance charges	28	35	109
Loss/(gain) arising on fair value of derivative contracts	413	1,744	1,195
	<u>758</u>	<u>2,067</u>	<u>1,941</u>

Finance charges of £28,000 (H1 2010: £35,000) 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 arising on fair value of derivative contracts is a mark-to-market and a non-cash item.

Notes to the interim financial statements (continued)

9. Loss per share

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

The calculation of diluted earnings/(loss) per share is based on the basic earnings/(loss) per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

	Six months to 30 June 2011	Six months to 30 June 2010	Year to 31 December 2010
Loss attributable to ordinary shareholders:			
Loss for the period (£000)	(601)	(4,069)	(3,008)
Weighted average number of shares (used for basic earnings per share)	35,507,404	25,026,160	24,551,164
Dilutive effect of options*	59,420	82,920	59,420
Weighted average number of shares (used for diluted earnings per share)	35,566,824	25,109,080	24,610,584
Basic loss per share (pence)	(1.69)	(16.26)	(12.25)
Diluted loss per share (pence)*	(1.69)	(16.26)	(12.25)

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

Notes to the interim financial statements (continued)

10. Tax

	Six months to 30 June 2011 £000	Six months to 30 June 2010 £000	Year to 31 December 2010 £000
Current Tax			
UK tax corporation tax at 26% (H1 2010: 28%)	-	-	-
Amounts (over)/under provided in prior years	-	-	(40)
Overseas taxation	270	394	965
Adjustment in respect of prior years	-	-	(5)
Total current tax	270	394	920
Deferred tax:			
Revaluation of derivative contracts to fair value	(109)	(488)	(305)
Impact of CT rate change to 26%	226	-	-
Acceleration of capital allowances	-	-	(60)
Losses available for offset against future taxable income	-	-	26
Retirement benefit obligations	-	-	57
Less movement recorded in changes of equity	-	-	(5)
Other temporary differences	(24)	-	151
Amounts over provided in prior years	-	-	151
Deferred tax	93	(488)	15
Tax charge/(credit) reported in the income statement	363	(94)	935

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in future against which deductible temporary differences can be utilised. This recognition is supported by the profitability of the trading operations of the business.

11. Pension

No interim valuation of the pension liability has been carried out at 30 June 2011. 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 2010. 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 2011.

Notes to the interim financial statements (continued)

11. Pension (continued)

The net obligation for pensions recognised in the statement of financial position as at 31 December 2010 was £2.6 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 5.7%, 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 2011, there has not been a material change in such bond yields nor the expectations for inflation.

12. Share capital

Shares authorised and issued are summarised below.

	Six months to 30 June 2011 Number	Six months to 30 June 2011 £000	Six months to 30 June 2010 Number	Six months to 30 June 2010 £000	Year to 31 December 2010 Number	Year to 31 December 2010 £000
Allotted, called up and fully paid:						
At beginning of period	35,507,404	355	66,093,190	66	66,093,190	66
Share consolidation	-	-	(59,483,871)	-	(59,483,871)	-
Issued in period	-	-	5,263,200	53	5,263,200	53
Issue of shares on acquisition	-	-	13,153,641	131	13,218,218	132
Issued in December 2010	-	-	-	-	10,416,667	104
At end of period	<u>35,507,404</u>	<u>355</u>	<u>25,026,160</u>	<u>250</u>	<u>35,507,404</u>	<u>355</u>

Each share in issue has the same right to receive dividend and the repayment of capital and represents one vote at the shareholders' meeting of Specialist Energy Group plc.

Notes to the interim financial statements (continued)

13. Share options

Details of the share options outstanding at 30 June 2011 are set out below.

	At 30 June 2011		At 30 June 2010		At 31 December 2010	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at beginning of period	59,420	0.44	1,631,196	0.32	1,631,196	0.32
Share consolidation	-	-	(1,468,077)	-	(1,468,077)	-
Options granted	-	-	-	-	-	-
Options exercised	-	-	-	-	-	-
Options lapsed	-	-	(80,199)	0.25	(103,699)	0.25
Outstanding at end of period	59,420	0.44	82,920	0.38	59,420	0.44

None of the Directors hold any options.

14. Disposal group – assets held for sale

The Board resolved to dispose of the intangible assets relating to clean technology contained within the Nviro business. These assets, which are available for immediate sale and which are expected to be sold within 12 months, have been classified as a disposal group held for sale and presented separately in the balance sheet. Negotiations with several parties have taken place and the assets are reflected at fair value less costs to sell.