

CORAC GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

Corac Group plc (“Corac”), the intellectual property and licensing company specialising in compressor technology, announces interim results for the six months ended 30 June 2005.

Operational Highlights for Three Product Lines

Industrial air

- Successful launch of the CS Fusion no-oil industrial air compressor at the Hannover Fair, Germany. Trialling the technology anticipated in the near future;
- Successful exhibition of 50 kW and 150 kW high speed direct drive turbo compressors;

Downhole gas compression

- Phase 2 of the Joint Industry Programme (‘JIP’) signed in June 2005, which involves the design and testing of important components and sub-systems of the downhole gas compressor to an international specification;

High pressure dry gas seals

- First commercial units of high pressure gas seals now being manufactured and tested at AESSEAL’s Rotherham plant;
- Marketing programme commenced in May 2005;

Financial Highlights

- Turnover for the period £403,000 (2004: £318,000);
- Loss before tax £923,000 (2004: Loss £860,000);
- Cash balance of £3.7 million (31 December 2004: £4.1 million);

Commenting on outlook, Chairman, Professor Gerry Musgrave said:

“Our CS Fusion machine has generated substantial interest giving us confidence that we are able to penetrate the substantial industrial air market. This together with our other industrial air opportunities, our licence fee income from our dry gas seals and the potential upside from our downhole gas compression project, should give us an exciting long term future.”

For further information:

**Corac Group plc
Prof. Gerry Musgrave, Executive Chairman
Roberta Miles, Finance Director**

01895 813463

**Buchanan Communications
Richard Darby
Suzanne Brocks**

020 7466 5000

NOTES TO EDITORS

Corac is an intellectual property, engineering and licensing group which holds many patents. It focuses on high speed electrical direct drive turbo machinery based on its unique expertise in gas bearings. Corac has created an innovative 'no oil' turbo compressor together with a unique gas seal, and is part of a joint industry programme for the downhole gas extraction industry.

Further information on Corac is available on the internet at www.corac.co.uk

Introduction

I am pleased to report further solid progress in Corac's three product lines in the first half of 2005. The successful launch of the CS Fusion no-oil industrial air compressor at the Hannover Fair in Germany has generated much interest in our industrial air products. Phase 2 of the Joint Industry Programme for the downhole gas compressor has been signed following completion of Phase 1 and in addition, marketing activities and volume production trials of our dry gas seals have commenced with AESSEAL plc.

Financial Review

The financial results for the six months ended 30 June 2005 show a loss after tax of £923,000 (2004: £860,000) on turnover of £403,000 (2004: £318,000). In addition to this turnover, the Company also received £45,000 (2004: £48,000) of grant income.

The operating loss of £1,016,000 compares with 2004 operating loss of £966,000 which included a significant one-off licence fee.

The Company had £3.7 million in cash and treasury deposits on 30 June 2005 (£4.1 million at 31 December 2004). The Board continues to review additional funding requirements to bring the downhole technology to its full commercial potential and maximise future shareholder value.

Industrial Air

In April 2005, Corac exhibited for the first time at the Hannover Industrial Fair its CS Fusion no-oil industrial air compressor and two high speed direct drive turbo compressors in 50 kW and 150 kW sizes. In response to much interest at the Fair from major compressor companies worldwide, successful demonstrations have been carried out at Corac's development facilities in Uxbridge. We are in discussions with a number of parties about trialling the technology, which we anticipate will be concluded in the near future.

The launch of the CS Fusion machine has significantly enhanced the marketability of our industrial air products. The CS Fusion unit uses a single stage of our developed direct drive turbo compressor to boost a water injected screw compressor. A demonstrator using a modified 50 kW waterscrew and a Corac single 50 kW spool produced an impressive output equivalent to a 132 kW machine, by combining the benefits of high volume throughput of the turbo with the high pressure capability of the waterscrew. In addition, all the benefits of no oil, small size and low cost of ownership are retained. More importantly, the CS Fusion machine does not threaten existing market players, but enhances their capability. Therefore, we expect that the sale of the turbo compressors for the CS Fusion machine will give us significant market presence because of its potential for early adoption with several leading companies.

We have further developed our understanding of the refrigeration marketplace and established that our unique bearing technology in our turbo compressors lends itself well to the refrigeration business. The current market for industrial refrigeration systems is substantial, and Corac's technology is ideally suited to the higher capacity chiller market sector. In particular, the use of ammonia as a refrigerant gas is becoming more desirable. This natural gas satisfies new environmental legislation and ideally suits our technology as it results in a more efficient compressor. We are having on-going dialogue with a number of potential partners in the refrigeration industry.

In general, we have developed modular turbo compressor technology which can be applied to a number of different applications: turbo boosting waterscrews and dry screws, plastic bottle blowing systems and refrigeration which should enable Corac to exploit many sectors within the market.

Downhole Gas Compression

We were pleased to announce on 15 June 2005 the signing of the second phase of the Joint Industry Programme ('JIP'). This reflects the confidence of the JIP partners, who have now committed over £2.5 million of funding since project commencement towards supporting and accelerating our on-going development of Corac's unique downhole gas compressor product.

The successful completion of Phase 1 has seen considerable engineering and experimental verification work carried out. This has enabled an understanding of the operating environment likely to be encountered downhole and clearly identified solutions for the compressor's operability under a wide range of well conditions. The functionality of Corac's air bearings with natural gas and the operation of the compressor system under typical flow conditions have been modelled. Significant breakthroughs have also been achieved in the area of power transmission and downhole electronics, thereby maximising performance.

Phase 2 involves the design and testing of important components and sub-systems of the downhole gas compressor to an international specification which should enable us to have good market penetration of the world's gas wells. Currently we are developing a comprehensive flow loop test programme for next year prior to a field trial of a prototype in a live gas well.

This sector of the business is proving attractive to certain investor communities and the Board continues to monitor this interest to ensure the correct decision is taken to maximise value for shareholders.

High Pressure Dry Gas Seals

Corac continues to work closely with AESSEAL plc, our licensee, for the manufacture and sale of our high pressure dry gas seal. This work involves establishing volume production capabilities and testing facilities at AESSEAL's Rotherham plant where the first commercial units are now being tested. In parallel, the marketing programme involves the training of their specialist sales executives worldwide and introducing the technology to the oil and gas industry. This programme commenced in May at an AESSEAL sales conference with a presentation to their international distributors and customers. The first open international presentation of the products and the technology was given to the oil and gas industry at The Offshore Europe Conference & Exhibition in Aberdeen last week and was well received. Engineering progress continues at a pace which should lead to royalties and increased income to Corac in the near future.

Outlook

Our gas seal licence with AESSEAL has verified our business model of licensing our products in the market. The CS Fusion machine has generated substantial interest from a significant number of companies worldwide and we expect, from the results of our marketing and demonstrations so far, a breakthrough in licensing sales. The outstanding performance, particularly in terms of energy savings which can be gained from the CS Fusion unit, gives us confidence that we are able to penetrate the substantial £2 billion industrial air market. Our downhole gas compression project has more than satisfied our JIP partners and in view of our progress should give the Company an exciting long term future.

Professor G Musgrave
Executive Chairman
13 September 2005

	6 months ended 30 June 2005 (unaudited) £'000	6 months ended 30 June 2004 (unaudited) £'000	Year ended 31 December 2004 (audited) £'000
Turnover	403	318	727
Cost of sales	<u>(390)</u>	<u>(48)</u>	<u>(430)</u>
Gross profit	13	270	297
Development costs	(404)	(581)	(1,007)
Administrative expenses	(670)	(703)	(1,366)
Other operating income	<u>45</u>	<u>48</u>	<u>83</u>
Operating loss	(1,016)	(966)	(1,993)
Net interest receivable	<u>93</u>	<u>106</u>	<u>216</u>
Loss on ordinary activities before taxation	(923)	(860)	(1,777)
Taxation	<u>-</u>	<u>-</u>	<u>490</u>
Loss for the period	<u><u>(923)</u></u>	<u><u>(860)</u></u>	<u><u>(1,287)</u></u>
Loss per share			
Basic pence per share	(1.3)	(1.3)	(1.9)

	At 30 June 2005 (unaudited) £'000	At 30 June 2004 (unaudited) £'000	At 31 December 2004 (audited) £'000
Fixed assets			
Tangible assets	324	410	373
Current assets			
Stock	45	50	50
Debtors	1,105	838	850
Cash held on long-term deposit	3,659	4,460	4,045
Cash at bank and in hand	51	314	38
	4,860	5,662	4,983
Creditors: amounts falling due within one year	(1,140)	(686)	(395)
Net current assets	3,720	4,976	4,588
Total assets less current liabilities	4,044	5,386	4,961
Share capital and reserves			
Share capital	6,877	6,869	6,871
Share premium	11	11	11
Capital redemption reserve	575	575	575
Own shares held by Employee Benefit Trust	(300)	(300)	(300)
Profit and loss account	(3,119)	(1,769)	(2,196)
Equity shareholders' funds	4,044	5,386	4,961

	6 months ended 30 June 2005 (unaudited) £'000	6 months ended 30 June 2004 (unaudited) £'000	Year ended 31 December 2004 (audited) £'000
Net cash outflow from operating activities	(798)	(1,071)	(1,851)
Net cash inflow from returns on investment and servicing of finance	93	106	216
Taxation	335	427	427
Net cash outflow from capital expenditure	(9)	(49)	(72)
Net cash outflow before use of liquid resources and financing	(379)	(587)	(1,280)
Management of liquid resources	386	868	1,283
Financing	6	17	19
Increase in cash in the period	13	298	22
Reconciliation of net cash flow to movement in net funds			
Increase in cash in period	13	298	22
Cash outflow from decrease in liquid resources	(386)	(868)	(1,283)
Movement in net funds from cashflows in period	(373)	(570)	(1,261)
Net funds at start of period	4,083	5,344	5,344
Net funds at end of period	3,710	4,774	4,083

1 BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The principal accounting policies of the group have remained unchanged from those set out in the group's 2004 Annual Report and Financial Statements.

The figures for the year ended 31 December 2004 have been extracted from the Annual Report and Financial Statements which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statements under Section 237(2) or (3) of the Companies Act 1985. The financial information set out in this interim report does not constitute statutory financial information within the meaning of Section 240 of the Companies Act 1985.

The interim information in this report has been neither audited nor reviewed by the company's auditors.

2 TURNOVER

All turnover has been derived from the group's research and development activities, and the commercialisation of its resultant intellectual property.

3 LOSS PER SHARE

The calculation of the loss per share is based on the loss for the period divided by the weighted average number of shares in issue during the period as follows:

	6 months ended 30 June 2005 (unaudited)	6 months ended 30 June 2004 (unaudited)	Year ended 31 December 2004 (audited)
Weighted average number of shares in issue	<u>68,740,145</u>	<u>68,658,701</u>	<u>68,683,950</u>

4 SHAREHOLDERS' FUNDS

	Share capital	Share premium	Capital redemption reserve	Own shares held by Employee Benefit Trust	Profit and loss	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2005	6,871	11	575	(300)	(2,196)	4,961
Issue of shares	6	-	-	-	-	6
Loss for period	-	-	-	-	(923)	(923)
At 30 June 2005	<u>6,877</u>	<u>11</u>	<u>575</u>	<u>(300)</u>	<u>(3,119)</u>	<u>4,044</u>

5 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	6 months ended 30 June 2005 (unaudited) £'000	6 months ended 30 June 2004 (unaudited) £'000	Year ended 31 December 2004 (audited) £'000
Operating loss	(1,016)	(966)	(1,993)
Depreciation	58	61	121
Decrease in stocks	4	-	-
(Increase)/decrease in debtors	(590)	(428)	49
Increase/(decrease) in creditors	<u>746</u>	<u>262</u>	<u>(28)</u>
Net cash outflow from operating activities	<u>(798)</u>	<u>(1,071)</u>	<u>(1,851)</u>

6 COPIES OF THE INTERIM STATEMENT

Copies of the interim statement will be sent to shareholders. Further copies will be available from the Company's registered office at Brunel Science Park, Kingston Lane, Uxbridge, Middlesex UB8 3PQ for one month from today.