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CORAC GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Corac Group plc ("Corac") the intellectual property, engineering and licensing group specialising in compressor technology, announces its interim results for the six months ended 30 June 2006 and continued success in the commercialisation of its technology.

Operational Highlights

- Appointment of Alan Wood, CBE as Non-Executive Director in April 2006.

Downhole Gas Compression (DGC)

- Development of flow loop test rig to allow evaluation of a full set of compressors in simulated downhole conditions;
- JIP Steering Committee endorsed progress of Joint Industry Programme, which remains on track;
- Planning for field trials underway with Conoco Phillips (UK), Eni SpA and Repsol YPF with units deployed in 2008;
- Two competitive DTI grants won for DGC power electronics system, providing £900,000 over three year period.

Industrial air

- First 150 kW machine due to be shipped to Leobersdorfer Maschinenfabrik AG;
- Two field trial CS Fusion machines for major Far Eastern compressor manufacturer in progress;

High Pressure Gas Seals

- Manufacturing capability of product range is nearing completion with partner AESSEAL.

Financial Highlights

- Turnover up 31% to £527,000 (2005: £403,000);
- Loss before taxation of £1.0 million (2005: £943,000 – restated for adoption of FRS20);
- Loss per share 1.4p (2005: 1.4p);

- Cash at year end £3.4 million (£3.5 million at 31 December 2005) after Institutional Placing of £1.1 million during period.

Commenting on the future, Chairman, Professor Gerry Musgrave, said:

"As the Downhole Gas Compressor progresses towards a working prototype for this significant global market, it is important that our other target markets have products that deliver income and cash flow now, establishing the Group's presence in these respective sectors. We are pleased with our ongoing progress and continue to look forward to the future with enthusiasm."

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Notes to editors

Corac is an intellectual property, engineering and licensing group, focussing on high speed electrical direct drive turbo machinery based on its unique expertise in gas bearings for which it holds several patents. 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

CHAIRMAN'S STATEMENT

Introduction

The Group continues to make sound progress, with the building of prototypes for our Industrial Air partners, flow loop testing facilities for our Downhole Gas Compressor (DGC) and production design of high pressure gas seals with our partner, AESSEAL.

In April, we were delighted to welcome to the Board as a Non-Executive Director Alan Wood CBE, Chief Executive of Siemens plc, who brings a wealth of experience in the large industrial engineering arena and contacts within the international community.

As the development of our products continues, we had a portfolio of 52 patents by the end of the six months under review, an increase of 6 patents.

Financial Review

The financial results for the six months ended 30 June 2006 show a loss after tax of £1.0 million (2005: £0.9 million restated for the adoption of FRS20) on turnover of £527,000 (2005: £403,000). In addition to this turnover, the Company also received £21,000 (2005: £45,000) of grant income.

The operating loss of £1,094,000 compares with the 2005 operating loss of £1,036,000 (restated for the adoption of FRS20) and is in line with management expectations.

At 30 June 2006, the Group's cash and treasury deposits amounted to £3.4 million (£3.5 million at 31 December 2005). During the period under review, the Company issued 3,528,900 Ordinary Shares of 10p each for cash at £0.32 per share by means of an Institutional Placing which, net of costs, raised approximately £1.1 million. At 30 June 2006 the number of issued shares was 74,429,700.

Downhole Gas Compressors

Since the beginning of the year, the Group has been working with Advantica, a subsidiary of National Grid, in the design of a major test rig for flow loop testing in the final development phase of the Joint Industry Programme (JIP). This recently culminated in the signing of a contract with Advantica for the development and operation of the flow loop test rig, which will allow the evaluation of a full set of compressors in simulated downhole conditions. During the period, the JIP Steering Committee endorsed our progress which remains on track. All three partners, Conoco Phillips (UK), Eni SpA and Repsol YPF will be planning field trials in 2007 with the units deployed in 2008. They are all highly motivated by the prospects of wells all over the world delivering up to 40% extra gas.

Preparation for field trials has already commenced and will continue next year with site selection and infrastructure development, as well as the building of compressor units. Each JIP partner is budgeting significant sums for completion of the final development phase, of which the Group will receive a material element. With significant increases in energy prices throughout the last year, the potential market for our unique downhole compressor system is becoming even greater.

The innovation in our power electronics system has enabled Corac to win two competitive DTI grants providing a contribution of £900,000 towards costs, to be received over a three-year period. The result of this collaborative research work will extend the operating temperature capabilities of our AC/DC electronics switching system for our downhole compressor modules. This will also potentially give us capabilities in handling motor controls for other high temperature applications.

Industrial Air

Following the signing of contracts with two international compressor manufacturers around the year-end, the first 150 kW machine is due to be shipped to Leobersdorfer Maschinenfabrik AG. This machine is scheduled to be exhibited in Munich Congress in November 2006. The second contract with a major Far Eastern compressor manufacturer is for two field trial CS Fusion machines which are in progress. This is expected to lead to further orders as Corac is offering new technology that delivers 15% greater efficiency than competing dry screw machines, with the advantages of no oil contamination, reduced maintenance and lower capital and operating costs. These characteristics are important for many end users, particularly those in China, where there is a growth rate of some 26% per year for this type of compressor.

Our involvement with these international players is exciting because both companies operate in different application areas giving the Group steady growth in revenues for the future and the opportunity for significant market presence. There are a number of other companies showing interest in our technology, both in the conventional air sector, as well as in refrigeration. Whilst breaking into new market areas is slow and often frustrating, we anticipate further contracts in the near future.

High Pressure Gas Seals Licence

The dry gas seals business continues to progress with our partner, AESSEAL. Manufacturing capability of our product range in accordance with the standards required by the industry is nearing completion. Selective presentations to potential end customers continue to be encouraging.

Outlook and Future Prospects

As the Downhole Gas Compressor progresses towards a working prototype for this significant global market, the risks associated with this innovative project are reduced. Whilst the Downhole Gas Compressor will not be a true commercial product until 2009, it is important that our other target markets have products that deliver income and cashflow now, establishing the Group’s presence in these respective sectors. We are pleased with our ongoing progress and continue to look forward to the future with enthusiasm.

Professor G Musgrave
Executive Chairman
19 September 2006

CONSOLIDATED PROFIT & LOSS ACCOUNT
For the six months ended 30 June 2006

	6 months ended 30 June 2006	6 months ended 30 June 2005	Year ended 31 December 2005
		(restated)	*(restated)*
	(unaudited)	(unaudited)	(audited)
	£'000	£'000	£'000
Turnover	527	403	836
Cost of sales	(458)	(390)	(796)
Gross profit	69	13	40
Development costs	(421)	(404)	(974)
Administrative expenses	(763)	(690)	(1,359)
Other operating income	21	45	83
Operating loss	(1,094)	(1,036)	(2,210)
Net interest receivable	87	93	182
Loss on ordinary activities before taxation	(1,007)	(943)	(2,028)
Taxation	-	-	116
Loss for the period	(1,007)	(943)	(1,912)
Loss per share			
Basic pence per share	(1.4)	(1.4)	(2.8)

	At 30 June 2006 (unaudited) £'000	At 30 June 2005 *(restated)* (unaudited) £'000	At 31 December 2005 *(restated)* (audited) £'000
Fixed assets			
Tangible assets	228	324	273
Current assets			
Stock	45	45	45
Debtors	1,480	1,105	556
Cash held on long-term deposit	3,370	3,659	3,411
Cash at bank and in hand	47	51	50
	4,942	4,860	4,062
Creditors: amounts falling due within one year	(1,657)	(1,140)	(1,062)
Net current assets	3,285	3,720	3,000
Total assets less current liabilities	3,513	4,044	3,273
Share capital and reserves			
Share capital	7,443	6,877	7,058
Share premium	858	11	11
Capital redemption reserve	575	575	575
Own shares held by Employee Benefit Trust	(300)	(300)	(300)
Share-based payment reserve	118	86	103
Profit and loss account	(5,181)	(3,205)	(4,174)
Equity shareholders' funds	3,513	4,044	3,273

	6 months ended 30 June 2006 (unaudited) £'000	6 months ended 30 June 2005 (unaudited) £'000	Year ended 31 December 2005 (audited) £'000
Net cash outflow from operating activities	(1,357)	(798)	(1,473)
Net cash inflow from returns on investment and servicing of finance	87	93	182
Taxation	-	335	495
Net cash outflow from capital expenditure	(6)	(9)	(13)
Net cash outflow before use of liquid resources and financing	(1,276)	(379)	(809)
Management of liquid resources	41	386	633
Financing	1,232	6	187
(Decrease)/increase in cash in the period	(3)	13	11

Reconciliation of net cash flow to movement in net funds

(Decrease)/increase in cash in period	(3)	13	11
Cash outflow from decrease in liquid resources	(41)	(386)	(633)
Movement in net funds from cashflows in period	(44)	(373)	(622)
Net funds at start of period	3,461	4,083	4,083
Net funds at end of period	3,417	3,710	3,461

1 BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The interim financial information has been prepared on the basis of the accounting policies set out in the company's annual financial statements for the year ended 31 December 2005 with the exception that FRS 20 'Share-based Payments' has been adopted in the interim financial statements.

In accordance with FRS 20, the fair value of equity-settled share-based payments is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the company's estimate of the options that will eventually vest. The adoption of FRS 20 has resulted in a charge to the profit and loss account of £15,000.

Following the adoption of FRS 20, a prior year adjustment has been made which results in a decrease in the profit and loss reserve brought forward at 1 January 2006, and the creation of a share-based payment reserve, of £103,000. The profit and loss account for the period ended 30 June 2005 and the year ended 31 December 2005 have been restated for charges of £20,000 and £37,000 respectively.

The figures for the year ended 31 December 2005 have been extracted from the Annual Report and Financial Statements which have been filed with the Registrar of Companies, amended for the adoption of FRS 20. The auditor's 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 auditor.

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 2006 (unaudited)	**6 months ended 30 June 2005 (unaudited)**	**Year ended 31 December 2005 (audited)**
Weighted average number of shares in issue	73,989,003	68,740,145	68,905,374

4 SHAREHOLDERS' FUNDS

	Share capital	**Share premium**	**Capital redemption reserve**	**Own shares held by Employee Benefit Trust**	**Share-based payment reserve *(restated)***	**Profit and loss account *(restated)***	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2006	7,058	11	575	(300)	103	(4,174)	3,273
Issue of shares	385	847	-	-	-	-	1,232
FRS 20 share option charge	-	-	-	-	15	-	15
Loss for period	-	-	-	-	-	(1,007)	(1,007)
At 30 June 2006	7,443	858	575	(300)	118	(5,181)	3,513

5 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	6 months ended 30 June 2006 (unaudited) £'000	6 months ended 30 June 2005 (unaudited) £'000	Year ended 31 December 2005 (audited) £'000
Operating loss	(1,094)	(1,036)	(2,210)
Share-based payment provision	15	20	37
Depreciation	51	58	112
Decrease in stocks	-	4	4
Increase in debtors	(924)	(590)	(84)
Increase in creditors	595	746	668
Net cash outflow from operating activities	(1,357)	(798)	(1,473)

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.