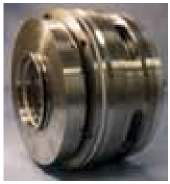
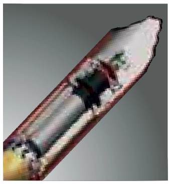
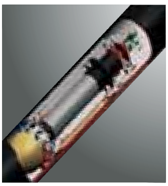
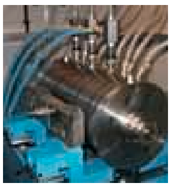
# Corac Group plc

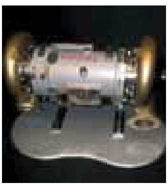
## Half Year Results 30 June 2007











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**Introduction**

I am pleased to report that the last six months have been exceptionally busy with progress on all fronts. We are shipping Industrial Air compressors to customers and we have been heavily engaged in testing of the downhole compressor at our secure site in Cumbria. Progress has resulted in further enquiries about the application of our technology from large groups in both the Oil & Gas and the Industrial Air sectors.

**Financial Review**

The financial results for the six months ended 30 June 2007 show a loss after tax of £702,000, a reduction from a loss after tax of £1,007,000 for the same period last year. The results were in line with management expectations. At 30 June 2007, the number of issued shares was 74,814,500.

Shareholder funds are being used to maximise progress for the Company. Turnover for the six months ended 30 June 2007 was £765,000, compared with £527,000 in 2006. The Company also received £61,000 (2006: £21,000) of grant income.

**Downhole Gas Compression ('DGC')**

The DGC Programme continues to reduce risk as a result of test procedures being undertaken in Cumbria.

The DGC development started over four years ago with a feasibility study, where we worked with Shell to investigate how the DGC concept applied to their assets and whether it could yield economic returns. The results were so positive that the Joint Industry Programme ('JIP') commenced with Conoco Phillips, ENI and Repsol in three phases:

Phase 1: The development of concepts to establish whether a Downhole Gas system could operate to within given environmental parameters.

Phase 2: The detailed design of the components, which were manufactured and tested.

Phase 3: The development and construction of the DGC unit and electronics, which were tested in our facility before proceeding to the loop test rig in Cumbria.

Throughout the programme our partners have collaborated and monitored our progress, funding each phase with stage payments.

The Cumbrian test rig commissioned last year replicates the environment of the downhole well. It is capable of accommodating our five compressors in a string which 'pump' methane gas at temperatures in excess of 100°C. Our fully manufactured units have been on test this year and have been delivering the speed and pressure requirements in this onerous environment.

Our current testing programme has been proceeding well, highlighting a number of design issues which are to be expected when rigorously testing in such a harsh environment. We are pleased that in every area where problems have occurred we have been able to analyse and rectify them, giving the Corac team a reputation for delivering reliability. Testing will continue until the beginning of 2008, although it is envisaged that we will retain the Cumbria site beyond that date for future production testing.

**Downhole Gas Compression (continued)**

The positive results from the loop testing programme have encouraged two of our JIP partners to identify the first wells for field trials. Corac engineers together with the well-completion engineers from the gas companies have been establishing the engineering requirements and budgets for field trials in Argentina and Italy. This has also resulted in Corac engaging with major global service contractors to take advantage of their knowledge and experience, for example in deploying electrical submersible pumps (ESPs) for the oil sector which has a parallel with our unique downhole gas compressor.

The UK continental shelf has a significant number of waning wells and our solution can provide a valuable tool to gain more of the stranded gas reserves or play a role in establishing strategic reserves.

**Industrial Air**

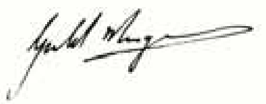
It is pleasing to report that we are now shipping products in this sector of our market and, even more importantly, that our hybrid compressor concept is being accepted by the Industrial Air industry. This bodes well for the future as evidenced by a number of other industrial conglomerates engaging with us with a view to adopting our technology. Gaining a significant share of the oil free industrial compressed air market will take time, but the experience we are having with our two present customers, LMF and Fu Sheng, is encouraging at this stage of our development.

The demonstration units that we have shipped and will be shipping for the rest of this year are to be used by end customers and are expected to lead to an escalation of orders, as well as wider acknowledgement of Corac's technology. Our two existing contracts at the moment are serving two different sectors of the Industrial Air market illustrating that there are opportunities to take up further relationships and licence agreements in particular sectors.

As the market grows, our technology will benefit from cost reduction through volume manufacturing. This will reinforce the apparent efficiency gains from the hybrid machine together with our inherent no-oil low maintenance machines to give an extremely cost effective product.

**Outlook**

Both the Downhole Gas Compressor and the Industrial Air products are opening up our market opportunities and we see Corac continuing to establish its presence in these markets. Further opportunities are being identified in power electronics in other markets and, for example, a compressor is being designed to handle ammonia to address the commercial refrigeration market. We look forward to the period ahead with confidence.



Professor Gerry Musgrave
Executive Chairman
21 September 2007

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# PROFIT & LOSS ACCOUNT

## For the six months ended 30 June 2007

| | 6 months ended 30 June 2007 (unaudited) £'000 | 6 months ended 30 June 2006 (unaudited) £'000 | Year ended 31 December 2006 (audited) £'000 |
|---|---|---|---|
| **Turnover** | 765 | 527 | 1,642 |
| Cost of sales | (592) | (458) | (1,479) |
| Gross profit | 173 | 69 | 163 |
| Development costs | (604) | (421) | (1,117) |
| Administrative expenses | (627) | (763) | (1,435) |
| Other operating income | 61 | 21 | 24 |
| **Operating loss** | (997) | (1,094) | (2,365) |
| Net interest receivable | 77 | 87 | 165 |
| **Loss on ordinary activities before taxation** | (920) | (1,007) | (2,200) |
| Taxation | 218 | - | 827 |
| Loss for the period | (702) | (1,007) | (1,373) |
| **Loss per share** | | | |
| Basic pence per share | (0.9) | (1.4) | (1.8) |

# BALANCE SHEET

**For the six months ended 30 June 2007**

| | At 30 June 2007 (unaudited) £'000 | At 30 June 2006 (unaudited) £'000 | At 31 December 2006 (audited) £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 161 | 228 | 192 |
| **Current assets** | | | |
| Stock | - | 45 | - |
| Debtors | 569 | 1,480 | 770 |
| Cash held on long-term deposit | 2,360 | 3,370 | 3,454 |
| Cash at bank and in hand | 88 | 47 | 72 |
| | 3,017 | 4,942 | 4,296 |
| **Creditors: amounts falling due within one year** | (618) | (1,657) | (1,312) |
| **Net current assets** | 2,399 | 3,285 | 2,984 |
| **Total assets less current liabilities** | 2,560 | 3,513 | 3,176 |
| **Share capital and reserves** | | | |
| Share capital | 7,481 | 7,443 | 7,443 |
| Share premium | 864 | 858 | 858 |
| Capital redemption reserve | 575 | 575 | 575 |
| Own shares held by Employee Benefit Trust | (298) | (300) | (298) |
| Share-based payment reserve | 192 | 118 | 150 |
| Profit and loss account | (6,254) | (5,181) | (5,552) |
| **Equity shareholders' funds** | 2,560 | 3,513 | 3,176 |

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## CASH FLOW STATEMENT

**For the six months ended 30 June 2007**

| | 6 months ended 30 June 2007 (unaudited) £'000 | 6 months ended 30 June 2006 (unaudited) £'000 | Year ended 31 December 2006 (audited) £'000 |
|---|---|---|---|
| **Net cash outflow from operating activities** | (1,709) | (1,357) | (1,832) |
| **Net cash inflow from returns on investment and servicing of finance** | 78 | 87 | 165 |
| **Taxation** | 519 | - | 515 |
| **Net cash outflow from capital expenditure** | (10) | (6) | (17) |
| **Net cash outflow before use of liquid resources and financing** | (1,122) | (1,276) | (1,169) |
| **Management of liquid resources** | 1,094 | 41 | (42) |
| **Financing** | 44 | 1,232 | 1,234 |
| Increase/(decrease) in cash in the period | 16 | (3) | 23 |

**Reconciliation of net cash flow to movement in net funds**

| | | | |
|---|---|---|---|
| Increase/(decrease) in cash in the period | 16 | (3) | 23 |
| Cash (outflow)/inflow from (decrease)/increase in liquid resources | (1,094) | (41) | 42 |
| Movement in net funds from cashflows in period | (1,078) | (44) | 65 |
| Net funds at start of period | 3,526 | 3,461 | 3,461 |
| **Net funds at end of period** | 2,448 | 3,417 | 3,526 |

## 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 company have remained unchanged from those set out in the company’s 2006 Annual Report and Financial Statements.

The figures for the year ended 31 December 2006 have been extracted from the Annual Report and Financial Statements which have been filed with the Registrar of Companies. 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 company’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 2007 (unaudited)** | **6 months ended 30 June 2006 (unaudited)** | **Year ended 31 December 2006 (audited)** |
|---|---|---|---|
| Weighted average number of shares in issue | 74,799,618 | 73,989,003 | 74,211,163 |

Diluted loss per share is not calculated since the conversion to ordinary shares of share options would be anti-dilutive.

## 4 SHAREHOLDERS' FUNDS

| | Share capital | Share premium | Capital redemption reserve | Own shares held by Employee Benefit Trust | Share-based payment reserve | Profit and loss account | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2007 | 7,443 | 858 | 575 | (298) | 150 | (5,552) | 3,176 |
| Issue of shares | 38 | 6 | - | - | - | - | 44 |
| FRS20 share option charge | - | - | - | - | 42 | - | 42 |
| Loss for period | - | - | - | - | - | (702) | (702) |
| At 30 June 2007 | 7,481 | 864 | 575 | (298) | 192 | (6,254) | 2,560 |

## 5 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | 6 months ended 30 June 2007 (unaudited) | 6 months ended 30 June 2006 (unaudited) | Year ended 31 December 2006 (audited) |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Operating loss | (997) | (1,094) | (2,365) |
| Share-based payment provision | 42 | 15 | 48 |
| Depreciation | 40 | 51 | 98 |
| Decrease in stocks | - | - | 45 |
| (Increase)/decrease in debtors | (100) | (924) | 97 |
| (Decrease)/increase in creditors | (694) | 595 | 245 |
| Net cash outflow from operating activities | (1,709) | (1,357) | (1,832) |

## 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.

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