Corac Group plc

Interim Report for the six months ended 30 June 2014

Corac Group ("Corac" or "the Group"), a group of companies that design, deliver and support advanced engineering systems in the global energy and security markets, today announces its interim results for the six months ended 30 June 2014.

Business highlights

- revenue growth and improved financial performance in each business
- HTT delivering growth with improved margins
- broadening of ACI customer base and additional orders from existing customers
- appointment of Simon Kings as MD at ACI with extensive Naval and international business development experience
- successful build and testing of CET renewable energy solutions with progress to manufacturing agreement expected with partners in the second half of the year
- refocused CET in the upstream gas sector on highest economic value applications

Group financial commentary

Growth in all three operating companies improved Group revenues by almost 20% to £9.9m (2013: £8.3m).

Total R&D[2] spend was £1.4m (2013: £1.4m) and was focused on supporting ongoing testing of the proven technology within the CET business. Central costs include a charge of £250k as settlement of a legal claim resolved in June 2014.

The Group loss before tax was reduced to £2.1m (2013: loss before tax of £2.4m), and the Adjusted Group EBITDA[1] loss was £1.4m (2013: loss £1.7m).

The timing of working capital flows and the continued investment programmes have led to a reduction in cash balance to £8.9m in the first half of the year (31 December 2013: £13.7m), which was in line with management expectations. The working capital movements are expected to reverse in the second half of the year.

Group order book stood at £12.2m as at 30 June 2014 (30 June 2013: £13.2m) and reflects timing factors on the issue of certain major contracts. Together with strong order intake since 30 June, this provides good visibility of revenue in the second half of the year.

Commenting on the results, Chief Executive Officer Phil Cartmell said:

"The results issued today demonstrate how the Group businesses are maturing and are on the path to making good returns on their activities. They have focused on their technical advantages and their strongest relationships whilst eliminating those activities that have proved to be a drain on their resources and performance.

"The Group continues to evolve and grow, and with each of the operating businesses making stronger contributions we anticipate demonstrating the true value that exists in our technologies and propositions.

"The Board is confident in Corac's outlook and expect an improved performance in the second half of the year. We anticipate being ahead of market expectations with reduced losses and in a robust financial position."

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NOTES TO EDITORS

Corac is a group of innovative UK based engineering companies, active in energy and environmental technologies. Group companies produce valuable solutions in compression systems, atmosphere management and heat exchangers for government, energy and industrial users. Corac Group shares have been traded on the London Alternative Investment Market (AIM) since July 2001.

Divisional Review

Atmosphere Control International (ACI)

£m	Unaudited 6 months to 30 June 2014	Unaudited 6 months to 30 June 2013	Audited year ended 31 December 2013
Revenue	4.7	4.5	10.7
Closing Order book	6.6	8.6	5.9
Operating profit	0.7	0.6	1.5
Adjusted EBITDA[1]	1.2	1.0	2.3
Adjusted EBITDA[1] Margin	26%	22%	22%

ACI had a positive start to the year and achieved organic growth through the securing of new customers in the global market and the extension of contracts within the existing customer base.

The order book has grown since the year end, although remains less than the unusually high value at the same time last year. This is a function of timing of large scale orders from defence procurement programmes. The order book has been converted into a slightly higher revenue figure at an increased margin, reflecting good internal disciplines in the delivery processes.

In the UK the focus remains on the Astute class submarine programme:

- additional order for a further atmosphere management system
- work continues on the 2014 delivery of the sixth boat of the planned seven
- preliminary work has started on specification of systems to position ACI for the Successor class that is expected to follow from 2016

In export markets, ACI has grown its footprint by securing additional contracts:

- supply of the first CO_2 removal unit for a new customer programme in South East Asia
- an additional CO_2 scrubber unit for an existing customer, also in this region

The company strengthened its senior management with the appointment of Simon Kings as Managing Director in July. This key appointment introduces new relationships through Simon's naval background and in-service experience.

Corac Energy Technologies (CET)

£m	Unaudited 6 months to 30 June 2014	Unaudited 6 months to 30 June 2013	Audited year ended 31 December 2013
Revenue	0.8	0.5	1.0
Closing Order book	2.1	1.1	2.9
Operating loss	(1.9)	(2.2)	(4.0)
Adjusted EBITDA[1] Loss	(1.7)	(1.9)	(3.5)
R&D Spend[2]	1.4	1.4	3.0

The increase in revenue from the continued focus on delivering early systems for two contracts in the renewable energy sector and the detail design of the BP platform compressor system resulted in losses narrowing slightly compared with 2013.

In addition the company has invested in facilities for more extensive testing of the core technology, and reviewed the potential returns from each of the development streams to focus its investment appropriately.

Investment in development capability included the construction of a market leading test facility at Slough:

- this extends the range of conditions that compressors are subjected to, to include sand and other solids , providing CET with independent data to prove its technologies and demonstrate the capability of compressor systems in conditions replicating live wells

In renewable energy markets, two active projects have progressed well:

- vapour compressors and expanders have been built and tested. Successful endurance trials have led to advanced discussions on the terms for manufacturing and production of volume units
- a gas let down expander is in the build phase at the technology centre, and is expected to be delivered before the end of the year for customer testing

In Oil and Gas, the company has refocused on projects where the technical proposition is strongest and commercial value highest. In this sector:

- the compressor project for offshore production is progressing well, both technically and financially, and is increasingly recognized as the best fit application for CET’s compact compressors at their current maturity
- the front end engineering study has been delivered to Saudi Aramco. Discussions are in progress on the technical options and economic viability of this application.
- in the downhole programme, testing of compressors continues in the new flowloop, but no further site work has been carried out on these projects during the first six months. The economic and technical options are being evaluated with ENI and the Texan partners.

This strategy has focused investment in areas where the technology has a leading advantage and projects where partners can apply our technology for maximum mutual benefit.

Hunt Thermal Technologies (HTT)

£m	Unaudited 6 months to 30 June 2014	Unaudited 6 months to 30 June 2013	Audited year ended 31 December 2013
Revenue	4.5	3.4	7.6
Closing Order book	3.5	3.5	5.4
Operating profit/(loss)	0.1	(0.1)	0.1
Adjusted EBITDA[1]	0.2	(0.1)	0.3
Adjusted EBITDA[1] Margin	4%	(3%)	4%

HTT has continued the turnaround commenced in the second half of 2013 into the first half of 2014. The management team has successfully grown revenue and converted this into an improved operating profit over the same period last year. Further contract wins announced since the half year end have replenished the order book and will support the second half performance and the early part of 2015.

This has been achieved by building upon HTT's competitive strengths in large scale, high integrity shell and tube exchangers, which typically sell into downstream petrochemical plants both in the UK and globally. Notable successes have been:

- delivery of a significant contract to supply multiple heat exchangers to a major downstream project in Saudi Arabia.
- delivered a further six-unit contract to a UK facility
- order for eight units from a UK refinery, delivery scheduled within the current year
- received an order (announced 2 September 2014) from a long standing Engineering Procurement and Construction (EPC) partner for large scale heat exchangers to be delivered to a UK downstream petrochemical facility

HTT has also grown its presence in extended surface heat exchangers in sectors like waste energy recovery, power generation and food and beverage production. In these sectors, HTT is able to offer greater added value, through its thermal and mechanical engineering services. In this area, the company:

- received an order for a large steam to air pre-heater that will be used at an energy-from-waste site in Europe - a fully engineered system that will integrate into an existing facility.
- received an order for six plume abatement coils - specialised heat exchangers work in the cooling towers of power stations and contribute to the reduction of the visible plume rising from the towers with additional services in engineering collaboration to design to fit within the customer's wider project specification
- received a follow on order for four additional plume abatement coils, taking total value above £0.5m

Strategy and Outlook

The Group strategy, declared a year ago, committed to extending geographic presence and supporting key clients across the three businesses. This has been successfully implemented and has led to growth in both ACI and HTT and increased focus on the contracts that drive the greatest value for CET.

The strategy continues to evolve in response to market conditions and the competitiveness of the Group's propositions in its core sectors. Organic growth initiatives will continue at ACI under its new leadership, and new service opportunities will be examined to expand the footprint within established relationships.

At HTT, the emphasis is on securing higher margin business in its established sectors and pursuing opportunities arising in general fabrication work, both as additional scope to heat exchanger projects and as unrelated work that can make use of the company's high integrity welding capability. The Board will also continue to review non-organic opportunities to accelerate this growth.

The CET strategy is to focus on those propositions and relationships in renewable energy and upstream gas production where the core technology is proven and the company can move rapidly to commercial returns.

The Group is also focusing on operational improvements with initiatives to improve supply chain performance and making more efficient use of intra-company capacity such as fabrication, as a more cost effective alternative to external suppliers. Corac remains robustly financed retaining a strong net cash position.

The Board is confident that this approach will lead to revenue growth and margin improvement in all three businesses as the Group continues to drive towards profitability.

Phil Cartmell
Chief Executive Officer
9 September 2014

Notes

[1] Adjusted EBITDA is defined as operating profit adjusted to add back depreciation of property, plant and equipment, amortisation and impairment of acquired intangible assets, share based payment charges and exceptional items. Exceptional items are those items believed to be exceptional in nature by virtue of their size and or incidence. There are no exceptional items in the current or prior periods.

[2] Total R&D spend includes some costs within cost of sales in CET.

Condensed Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 30 June 2014 £’000	Unaudited Six months ended (Restated - see note 2) 30 June 2013 £’000	Audited Year ended 31 December 2013 £’000
Revenue	9,911	8,347	19,330
Cost of sales	(7,626)	(6,412)	(15,858)
Gross profit	2,285	1,935	3,472
Distribution Costs	(258)	(293)	(219)
Research and development costs	(570)	(673)	(1,049)
Administrative expenses	(3,576)	(3,331)	(6,544)
Operating loss	(2,119)	(2,362)	(4,340)
Finance income	25	2	4
Loss before income tax	(2,094)	(2,360)	(4,336)
Income tax credit	273	280	780
Total comprehensive loss for the period attributable to shareholders	(1,821)	(2,080)	(3,556)
Loss per share expressed in pence per share	Pence	Pence	Pence
Basic and diluted loss per share	(0.43)	(0.74)	(1.1)

All results relate to continuing activities.

Condensed Consolidated Statement of Financial Position

	Unaudited 30 June 2014	Unaudited 30 June 2013	Audited 31 December 2013
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Goodwill	4,953	4,953	4,953
Other intangible assets	10,331	11,223	10,739
Property, plant and equipment	1,227	1,581	1,365
	16,511	17,757	17,057
Current assets			
Inventories	37	36	38
Trade and other receivables	5,013	3,245	2,716
Taxation recoverable	416	884	266
Cash and cash equivalents	8,932	2,774	13,749
	14,398	6,939	16,769
Total assets	30,909	24,696	33,826
LIABILITIES			
Current liabilities			
Trade and other payables	(3,560)	(5,099)	(4,059)
Taxation payable	-	(52)	(51)
	(3,560)	(5,151)	(4,110)
Non-current liabilities			
Deferred taxation	(2,065)	(2,579)	(2,148)
Provisions	(1,374)	(642)	(1,862)
	(3,439)	(3,221)	(4,010)
Total liabilities	(6,999)	(8,372)	(8,120)
Net assets	23,910	16,324	25,706
EQUITY			
Share capital	42,246	30,793	42,246
Share premium	13,769	13,769	13,769
Capital redemption reserve	575	575	575
Own shares held by the Employee Benefit Trust	(561)	(551)	(561)
Share-based payments reserve	1,119	1,065	1,094
Retained earnings	(33,238)	(29,327)	(31,417)
Total equity	23,910	16,324	25,706

Condensed Consolidated Statement of Changes in Equity

Six months to 30 June 2014	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares held by EBT £'000	Share-based payments reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2014	42,246	13,769	575	(561)	1,094	(31,417)	25,706
IFRS 2 share option charge	-	-	-	-	25	-	25
Transactions with owners	-	-	-	-	25	-	25
Total comprehensive loss for the period	-	-	-	-	-	(1,821)	(1,821)
Balance at 30 June 2014	42,246	13,769	575	(561)	1,119	(33,238)	23,910
Six months to 30 June 2013							
Balance at 1 January 2013	30,788	13,769	575	(551)	1,026	(27,247)	18,360
Issue of shares	5	-	-	-	-	-	5
IFRS 2 share option charge	-	-	-	-	39	-	39
Transactions with owners	5	-	-	-	39	-	44
Total comprehensive loss for the period	-	-	-	-	-	(2,080)	(2,080)
Balance at 30 June 2013	30,793	13,769	575	(551)	1,065	(29,327)	16,324
Year to 31 December 2013							
Balance at 1 January 2013	30,788	13,769	575	(551)	1,026	(27,247)	18,360
Issue of shares	11,458	-	-	(10)	-	-	11,448
IFRS 2 share option charge	-	-	-	-	68	-	68
Transactions with owners	11,458	-	-	(10)	68	-	11,516
Total comprehensive loss for the year	-	-	-	-	-	(3,556)	(3,556)
Share issue costs	-	-	-	-	-	(614)	(614)
Balance at 31 December 2013	42,246	13,769	575	(561)	1,094	(31,417)	25,706

Condensed Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 June 2014	Unaudited Six months ended 30 June 2013	Audited Year ended 31 December 2013
	£'000	£'000	£'000
Operating activities			
Loss before income tax	(2,094)	(2,360)	(4,336)
Adjustments for:			
Depreciation	259	254	505
Amortisation	408	408	816
Impairment of other intangible assets	-	-	76
Finance income	(25)	(2)	(4)
Share-based payment expense	25	39	68
Decrease in inventories	1	8	6
(Increase)/decrease in trade and other receivables	(2,297)	94	623
Increase/(decrease) in trade and other payables	115	(2,248)	(3,288)
(Decrease)/increase in provisions	(488)	(70)	1,150
	(4,096)	(3,877)	(4,384)
Income tax (paid)/received	(11)	-	686
Net cash used in operating activities	(4,107)	(3,877)	(3,698)
Investing activities			
Interest received	25	2	4
Purchase of property, plant and equipment	(121)	(7)	(42)
Net cash used in investing activities	(96)	(5)	(38)
Financing activities			
Proceeds from issue of shares	-	5	10,844
Expenses of issue of shares	(614)	-	(10)
Net cash from financing activities	(614)	5	10,834
Net (decrease)/increase in cash and cash equivalents	(4,817)	(3,877)	7,098
Cash and cash equivalents at beginning of period	13,749	6,651	6,651
Cash and cash equivalents at end of period	8,932	2,774	13,749

Notes to the Condensed Consolidated Interim Financial Statements

1. Nature of operations and general information

The principal activities of Corac Group plc and its subsidiaries (the "Group") undertaken by the ACI, CET and HTT businesses comprise:

- ACI: supplies air purification equipment, oxygen/hydrogen generation and purification for submarines and air handling and distribution systems in maritime and other environments.

- CET: specialises in the research and development of technologies in the field of gas compression and the design and manufacture of high speed motors and generators using proprietary permanent magnetic rotor and oil-less bearings.

- HTT: Production of specialised heat exchange equipment used in the cooling and heating of large scale industrial processes. HTT supply original equipment and spares, and perform refurbishment and term support services to user communities in oil & gas, chemical processing, power generation, foods and pharmaceuticals from an integrated design and production facility.

Corac Group plc (the "Parent Company") is the Group's ultimate parent company which is incorporated and domiciled in the United Kingdom. The address of the registered office of the Company is Technology Centre, 683-685 Stirling Road, Slough, Berkshire, SL1 4ST. The Parent Company's shares are listed on the Alternative Investment Market of the London Stock Exchange.

The condensed consolidated interim financial statements are presented in pounds sterling, which is also the functional currency of the Parent Company, and all values are rounded to the nearest thousand pounds except when otherwise indicated.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2013, prepared under IFRS as adopted by the EU, have been delivered to the Registrar of Companies. The auditor's report on the 2013 financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

The condensed consolidated interim financial statements were approved for issue by the Board of Directors on 9 September 2014.

2. Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 June 2014. They have been prepared following the principal accounting policies and methods of computation set out in the Group's Annual Report and Accounts for the year ended 31 December 2013.

These condensed consolidated interim financial statements have been prepared under the historical cost convention using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. While the financial figures included in this half-yearly report have been computed in accordance with IFRS applicable to interim periods, this half-yearly report does not contain sufficient information to constitute an interim financial report as that term is defined in IAS 34.

Going concern

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future, and accordingly continue to adopt the going concern basis in preparing the accounts.

Restatement of comparative results for the six months to 30 June 2013

The presentation of the unaudited condensed consolidated statement of comprehensive income for the six months to June 2013 has been reclassified to be consistent with the current year presentation. The overall reported loss for the period has not changed.

3. Segmental Reporting

The following table presents revenue, profit and certain net asset information for each business segment.

	Unaudited Six months ended 30 June 2014 £'000	Unaudited Six months ended 30 June 2013 £'000	Audited Year ended 31 December 2013 £'000
Revenue			
Atmosphere Control International	4,677	4,490	10,667
Corac Energy Technologies	771	505	1,049
Hunt Thermal Technologies	4,463	3,352	7,614
Group	9,911	8,347	19,330
Segment Operating Result			
Atmosphere Control International	745	610	1,510
Corac Energy Technologies	(1,920)	(2,153)	(3,954)
Hunt Thermal Technologies	119	(144)	141
Central costs	(1,063)	(675)	(2,037)
Group	(2,119)	(2,362)	(4,340)
Loss from operations	(2,119)	(2,362)	(4,340)
Finance Income	25	2	4
Loss before income tax	(2,094)	(2,360)	(4,336)
Income tax credit	273	280	780
Loss after tax	(1,821)	(2,080)	(3,556)
Segment net assets / (liabilities)			
Atmosphere Control International	12,886	10,723	12,270
Corac Energy Technologies	647	4,142	2,411
Hunt Thermal Technologies	2,530	2,104	2,407
Central	7,847	(645)	8,618
Total net assets	23,910	16,324	25,706
Geographical analysis – revenue			
United Kingdom	7,025	6,681	14,070
Rest of European Union	284	787	2,142
Rest of World	2,602	879	3,118
Total revenue	9,911	8,347	19,330

3. Segmental Reporting (continued)

	Atmosphere Control International	Corac Energy Technologies	Hunt Thermal Technologies	Central unallocated costs	Group
	£'000	£'000	£'000	£'000	£'000
Six months ended 30 June 2014					
Segment operating result	745	(1,920)	119	(1,063)	(2,119)
Depreciation, amortisation and impairment	407	212	48	-	667
Share based payments	-	6	-	19	25
Adjusted EBITDA[1]	1,152	(1,702)	167	(1,044)	(1,427)
Six months ended 30 June 2013					
Segment operating result	610	(2,153)	(144)	(675)	(2,362)
Depreciation, amortisation and impairment	405	213	44	-	662
Share based payments	-	-	-	39	39
Adjusted EBITDA[1]	1,015	(1,940)	(100)	(636)	(1,661)

The comparative results for the 6 months ended June 2013 have been restated. The previously stated results included a £140k exceptional charge. The charge has been included within the segment operating result, which is consistent with the treatment adopted in the audited accounts for the year ended 31 December 2013.

	Atmosphere Control International	Corac Energy Technologies	Hunt Thermal Technologies	Central unallocated costs	Group
Year ended 31 December 2013					
Segment operating result	1,510	(3,954)	141	(2,037)	(4,340)
Depreciation, amortisation and impairment	814	423	159	1	1,397
Share based payments	-	27	-	41	68
Adjusted EBITDA[1]	2,324	(3,504)	300	(1,995)	(2,875)

[1] Adjusted EBITDA is defined as operating profit adjusted to add back depreciation of property, plant and equipment, amortisation and impairment of acquired intangible assets, share based payment charges and exceptional items. Exceptional items are those items believed to be exceptional in nature by virtue of their size and or incidence. There are no exceptional items in the current or prior periods.

4. Loss per share

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

	Unaudited Six months ended 30 June 2014 number	Unaudited Six months ended 30 June 2013 number	Audited Year ended 31 December 2013 number
Weighted average shares in issue	420,857,956	306,379,318	310,164,087

The weighted average number of shares in issue has been reduced by deducting the weighted average number of shares held by the Employee Benefit Trust of 1,606,770 shares (six months ended 30 June 2013: 1,506,347 and year ended 31 December 2013: 1,509,649 shares).

The issue of additional shares on exercise of employee share options would decrease the basic loss per share and there is therefore no dilutive effect of employee share options.

5. Share Issues

On 11 June 2013 the Company issued 50,000 new ordinary shares of nominal value 10p each following the exercise of an employee share option issued at 10 pence per share under the Enterprise Management Incentive (EMI) scheme. On 19 December 2013, following approval at a General Meeting, the Company issued as a placement 110,000,000 new ordinary shares of 10p each and 4,534,310 new ordinary shares of 10p each as the result of an open offer. All shares were issued at 10p each and were subsequently admitted for trading on AIM. Expenses of £614,000 associated with the issue were recognised in equity. At 30 June 2014 Corac Group plc has a total called up share capital of 422,464,726 ordinary shares of nominal value of 10p each (30 June 2013: 307,930,416 and 31 December 2013: 422,464,726).