Portland Gas plc

Interim report
31 January 2009

Portland Gas plc

Contents

Directors, secretary and advisors

Directors	Kenneth Maurice Ratcliff *(Non-executive Chairman)* Andrew David Hindle *(Chief Executive Officer)* Craig Stuart Gouws *(Chief Financial Officer)* Walter Rookehurst Roberts *(Legal and Commercial Director)* Mark Anthony William Abbott *(Non-executive Director)* Maurice Edward Hazzard *(Non-executive Director)* Jonathan Richard Davie *(Non-executive Director)*
Company secretary	Walter Rookehurst Roberts
Registered office	Blackstable House Longridge Sheepscombe Stroud Gloucestershire, GL6 7QX
Principal office	80 Hill Rise Richmond Surrey, TW10 6UB
Auditors	Nexia Smith & Williamson 1 Bishops Wharf, Walnut Tree Close Guildford Surrey, GU1 4RA
Tax advisors	Smith & Williamson Limited 1 Bishops Wharf, Walnut Tree Close Guildford Surrey, GU1 4RA
Registrars	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent, BR3 4TH
Nominated advisor and broker	Seymour Pierce Limited 20 Old Bailey London, EC4M 7EN
Solicitors	Norton Rose LLP 3 More London Riverside London, SE1 2AQ
Bankers	Bank of Scotland plc 155 Bishopsgate London, EC2M 3YB
Financial public relations	Buchanan Communications Limited 45 Moorfields London, EC2Y 9AE

Overview and highlights

- The first funding process for the Portland project was halted owing to the "credit crunch" in November 2008. BNP Paribas have since been appointed as project finance advisors and a new funding process for the Portland project is expected to commence in May 2009.

- Following a period of bi-lateral discussions with interested parties a new data-room was opened in March 2009 for the Portland project.

- All the remaining pre-start planning conditions for the Portland project were discharged during February 2009 and it is now ready to move into the construction phase.

- The Larne Lough project Environmental Impact Assessment work continues with a planning application submission target for Q4 2009 following a further period of consultation with stakeholders after a public exhibition scheduled for June 2009.

- Progress made with new ventures in both Germany and Spain during the period.

- The Board of Directors was strengthened in December 2008 with the appointment of Jonathan Davie.

- Cash position - £4.8 million (31 July 2008 - £9.3 million).

- Net asset position - £22.0 million (31 July 2008 - £22.7 million).

Chairman and CEO's Statement

Portland Gas' strategy is to identify and develop sites for the underground storage of gas in sub-surface salt caverns. Extremely challenging market conditions prevailed during the first six months of this financial year and this has had an understandable impact upon the Company's ability to progress its joint venture funding process in support of the Portland project. The first joint venture funding process was halted in the midst of the "credit crunch" as previously reported in November 2008 and the arrangement with NM Rothschild & Sons was brought to a close. Since that time expenditure on the Portland project has been maintained but kept to a minimum commensurate with planning compliance and the preservation of commercial value. A new funding process is expected to commence in May 2009.

The Group has recorded a loss for the six month period ended 31 January 2009 of £736,197. The loss for the period, together with the balance of £1,960,345 brought forward, leaves a retained loss of £2,696,542 to be carried forward. During the period £3.7 million was capitalised in respect of the Portland project bringing the carrying value of our investment in this project to £18.8 million at 31 January 2009 (31 July 2008 - £15.1 million). Further capitalised expenditures of £0.3 million in respect of the Larne Lough project have brought the investment value in that project to £1.6 million (31 July 2008 - £1.3 million). The Group's cash and net asset positions are £4.8 million (31 July 2008 - £9.3 million) and £22.0 million (31 July 2008 - £22.7 million).

The Portland Project

During the period since halting the previous funding process, efforts have been concentrated upon evaluating all options to secure shareholder value.

A strategic review of the project has highlighted the possibility of a phased approach to construction that can offer flexibility in both capacity and injection/withdrawal capability. Advantages have also arisen from the fall in commodity prices that has enabled the Company to redetermine the development cost at a significant discount to 2008 estimates.

The Company has continued to engage in bi-lateral discussions with a range of parties to review potential partnerships and funding structures. This led in March 2009 to the re-opening of a data-room for potential investors containing over 3,000 documents spanning the development of the project over the past five years.

Access to the data-room has been initially given to five utilities/oil and gas companies on an informal basis as a result of the bi-lateral discussions and more are expected to join the process. With the help of newly appointed advisors, BNP Paribas, the Company intends to seek project finance for the project company, Portland Gas Holdings Limited ("PGHL"). The timing and structure of the new process will be agreed with interested parties prior to the formal launch of the process, expected in May 2009. Following a period of due-diligence by parties who have expressed an interest in the project, PG expects to conduct a sale of equity in the project, by way of auction if appropriate, later in 2009. Although such a process will involve 100% of the equity in PGHL being available for purchase, it is probable that the proceeds from the sale of equity will be used by PG to fund an appropriate retained equity interest in the project company. Under the proposed structure, equity partners, including PG, will each have long-term capacity agreements with the project company which will be offered as security against project finance in addition to partners providing financial guarantees as required. It is anticipated that the full funding process will be significantly advanced by the end of 2009 after due-diligence, project finance negotiations and completion of legal documentation. The Company has entered into preliminary discussions with the European Investment Bank ("EIB") concerning project finance to support the joint venture funding. The financing of large-scale energy projects which promote the security and diversification of energy supply is a priority objective within the EIB's lending strategy and PG hope that the Portland project will be eligible for funding within its portfolio of investments.

Chairman and CEO's Statement *(continued)*

All remaining pre-start of construction planning conditions for the Portland project were discharged during February 2009. In a separate work stream, to meet the target of first gas storage operations in April 2013, the Company is negotiating financial arrangements to commence construction of the well-pad in July 2009 on the Portland site. In addition PG will need to order materials so that the pipelines across Weymouth Bay can be constructed in the summer of 2010 ahead of Olympic Games related sailing activities in 2011 and 2012.

Larne Lough Project

Further progress has been made in Northern Ireland on the Larne Lough project with partner Moyle Energy Investments Limited. The Environmental Impact Assessment is now well underway and a full project cost estimation exercise has been completed by consultants, CB&I UK Limited, on behalf of the project company, Portland Gas NI Limited ("PGNI"). Following bi-lateral discussions with potential investment partners in the project we have decided to postpone drilling of the planned borehole at Ballylumford until the Front End Engineering Design work commences in 2010. This will enable the ongoing Common Arrangements for Gas ("CAG") process managed by the gas regulators in Northern Ireland and Ireland to set the framework for gas storage tariffs within a proposed "all-island" gas market to be completed. The commercial certainty that would be added through finalisation of the CAG tariff process makes it sensible to delay commitment of funds to drill and evaluate salt cores adjacent to the site of the proposed caverns below Larne Lough, until after this process has been completed. The CAG process is important for the development of commercial gas storage on the island which can be accessed by shippers and suppliers in Ireland, Northern Ireland and Great Britain.

Discussions with potential investment partners to date have reinforced our view that the technical risk in the project is low since a very good definition of the salt sequence was derived from the 3D seismic programme acquired by PGNI in 2007. To ensure that there is no delay to the project, with a target of first gas operations in 2014, PGNI proposes to submit the planning application during Q4 2009. This will follow further consultation with stakeholders, including a public exhibition of proposals being scheduled for June 2009 on Islandmagee.

Other Projects

Elsewhere the Company is looking to a future flow of projects in mainland Europe. A review of the geology and infrastructure has been completed in Germany and The Netherlands with a local partner. This work has resulted in the identification of an area of focus in North-West Germany and further evaluation work is ongoing. The next step will be the acquisition of mining rights for the salt prior to undertaking a technical programme, likely to include drilling and seismic acquisition to confirm the suitability of the area. Portland Gas has an 80% interest in the joint venture.

Following an evaluation of salt sequences and the gas market in Spain, the Company's wholly owned subsidiary, Portland Gas ESP, S.L., has submitted an application for a gas storage 'exploration' licence and is awaiting advice from authorities on the status of the application.

Chairman and CEO's Statement *(continued)*

Given the ongoing restrictions in the equity markets the Directors are continuing to limit spending of cash resources until investment is in place from industry partners and project finance for the Portland project. The Board fully recognise the importance of progressing this project and every effort is being made to adhere to the original construction timetable as both a corporate and national priority. In the meantime, efforts continue in parallel to advance the remaining projects without undue strain upon the Company's financial resources.

The Board of Directors was strengthened in December 2008 with the appointment of Jonathan Davie who brings a wealth of City experience. Our small team of dedicated staff has worked very hard and effectively in very challenging conditions and we would like to take this opportunity to thank them and our shareholders for their continued support. The Company is optimistic for the future of the gas storage business with an ever-increasing requirement for gas storage facilities over the coming decades based on a growing reliance on gas in Europe, particularly for power generation.

Ken Ratcliff – Non-executive Chairman
Andrew Hindle – Chief Executive Officer
20 April 2009

CONSOLIDATED INCOME STATEMENT for the six months ended 31 January 2009

	Notes	Six months ended 31 January 2009 Unaudited £	Six months ended 31 January 2008 Unaudited £	Year ended 31 July 2008 Audited £
Continuing operations				
Revenue		-	-	-
Cost of sales		-	-	-
Gross profit/(loss)		-	-	-
Administrative expenses		(894,115)	(927,433)	(1,767,017)
Operating loss		(894,115)	(927,433)	(1,767,017)
Investment revenues		157,918	129,263	197,396
Loss before taxation		(736,197)	(798,170)	(1,569,621)
Taxation		-	-	-
Loss for the period		(736,197)	(798,170)	(1,569,621)
Basic and diluted loss per share	3	1.05p	1.19p	2.33p

CONSOLIDATED BALANCE SHEET as at 31 January 2009

	Notes	31 January 2009 Unaudited £	31 January 2008 Unaudited £	31 July 2008 Audited £
Non-current assets				
Plant and equipment		18,807,090	54,617	15,195,167
Intangible assets		1,599,167	11,605,687	1,263,659
Total non-current assets		20,406,257	11,660,304	16,458,826
Current assets				
Trade and other receivables		167,995	430,250	305,520
Available for sale assets		12,500	12,500	12,500
Cash and cash equivalents		4,799,588	3,650,735	9,276,964
Total current assets		4,980,083	4,093,485	9,594,984
Current liabilities				
Trade and other payables		(982,389)	(1,174,387)	(1,408,848)
Net current assets		3,997,694	2,919,098	8,186,136
Non-current liabilities				
Obligations under contractual and lease agreements due after one year	4	(2,366,297)	-	(1,963,519)
Net assets		22,037,654	14,579,402	22,681,443
Shareholders' funds				
Share capital		7,038,473	6,780,184	7,038,473
Share premium		8,576,705	-	8,576,705
Merger reserve		8,988,112	8,988,112	8,988,112
Share based payment reserve		130,906	-	38,498
Retained earnings		(2,696,542)	(1,188,894)	(1,960,345)
		22,037,654	14,579,402	22,681,443

CONSOLIDATED CASH FLOW STATEMENT for the six months ended 31 January 2009

	Notes	Six months ended 31 January 2009 Unaudited £	Six months ended 31 January 2008 Unaudited £	Year ended 31 July 2008 Audited £
Net cash (used in) operating activities	5	(1,317,489)	(1,668,339)	(1,275,246)
Investing activities				
Investment revenues		157,918	129,263	197,396
Purchases of intangible assets		(335,508)	(2,175,794)	(5,645,493)
Purchase of plant and equipment		(2,982,297)	(58,590)	(63,887)
Purchase of financial assets		-	(12,500)	(12,500)
Net cash (used in) investing activities		(3,159,887)	(2,117,621)	(5,524,484)
Financing activities				
Proceeds on issue of ordinary shares		-	4,000,000	12,639,999
Net cash generated from financing activities		-	4,000,000	12,639,999
Net (decrease)/increase in cash and cash equivalents		(4,477,376)	214,040	5,840,269
Cash and cash equivalents at beginning of period		9,276,964	3,436,695	3,436,695
Cash and cash equivalents at end of period		4,799,588	3,650,735	9,276,964

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the six months ended 31 January 2009

	Share Capital £	Share premium £	Merger reserve £	Share based payment reserve £	Retained earnings £	Total equity £
Balance at 31 July 2007	117,782	-	11,650,514	-	(390,724)	11,377,572
Loss for the period	-	-	-	-	(798,170)	(798,170)
Total recognised income and expenses for the period	-	-	-	-	(798,170)	(798,170)
Issue of equity share capital	40,000	-	3,960,000	-	-	4,000,000
Portland Gas plc capitalisation	6,622,402	-	(6,622,402)	-	-	-
Balance at 31 January 2008	6,780,184	-	8,988,112	-	(1,188,894)	14,579,402
Loss for the period	-	-	-	-	(771,451)	(771,451)
Total recognised income and expenses for the period	-	-	-	-	(771,451)	(771,451)
Issue of equity share capital	258,289	8,576,705	-	-	-	8,834,994
Share based payments	-	-	-	38,498	-	38,498
Balance at 31 July 2008	7,038,473	8,576,705	8,988,112	38,498	(1,960,345)	22,681,443
Loss for the period	-	-	-	-	(736,197)	(736,197)
Total recognised income and expenses for the period	-	-	-	-	(736,197)	(736,197)
Share based payments	-	-	-	92,408	-	92,408
Balance at 31 January 2009	7,038,473	8,576,705	8,988,112	130,906	(2,696,542)	22,037,654

NOTES TO THE INTERIM RESULTS for the six months ended 31 January 2009

1. Basis of preparation

The condensed financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

Non-statutory accounts

The unaudited results contained in this document do not constitute statutory accounts as defined in Section 399 of the Companies Act 2006. A copy of the statutory accounts of the Company for the year ended 31 July 2008 has been delivered to the Registrar of Companies. The audit report on these accounts is unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain a statement under Sections 237(2)-237(3) of the Companies Act 1985.

Accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for the inclusion of financial instruments at fair value.
The same accounting policies, presentation and methods of computation are followed in these condensed financial statements as were applied in preparation of the Group's financial statements for the year ended 31 July 2008.

2. Segment information

The Group has only one material reportable business segment, which is the development of gas storage facilities in the United Kingdom which is not a seasonal or cyclical business. All operations are classified as continuing.

3. Loss per share

	Six months ended 31 January 2009 Unaudited p	Six months ended 31 January 2008 Unaudited p	Year ended 31 July 2008 p
Basic loss per share	1.05	1.19	2.33

The calculation of basic loss per share is based upon a loss of £0.7m (January 2008: £0.8m, July 2008: £1.6m) divided by the weighted average number of ordinary shares in issue of 70,384,727 (January 2008: 67,089,549, July 2008: 67,381,698).
In accordance with IAS 33, diluted earnings per share calculations are not presented as assumed conversion of outstanding share options would be anti-dilutive.

4. Obligations under contractual and lease agreements due after one year

The obligation under a lease agreement is to be settled over a period of 13.5 years while £500,000 of the other contractual arrangements will be settled within a period of 2 years, the balance will be settled on a straight line basis over a period of 20 years. The increase in the lease agreement liability during the period is £402,778.

NOTES TO THE INTERIM RESULTS for the six months ended 31 January 2009 *(continued)*

5. Cash (used in) operations

	Six months ended 31 January 2009 Unaudited £	Six months ended 31 January 2008 Unaudited £	Year ended 31 July 2008 £
Operating loss for the year	(894,115)	(927,433)	(1,767,017)
Depreciation	11,044	8,373	19,342
Decrease /(increase) in trade and other receivables	137,525	(101,914)	22,816
(Decrease)/increase in trade and other payables	(664,351)	(647,365)	216,121
Share option expense	92,408	-	38,498
Shares issued in lieu of bonus	-	-	194,994
Cash (used in) operations	(1,317,489)	(1,668,339)	(1,275,246)

6. Dividend

The Directors do not recommend payment of a dividend.

7. Publication of the interim report

This interim report is available on the Company's website www.portland-gas.com.