

29th September 2011

Half Year Statement On Kellen Group Performance

This update outlines Kellen Group's performance during the six months ended 30 June 2011

Principal Activities

The Group's operating business and principal activities comprise:

- Phoenix Natural Gas (PNG) – the largest gas distribution business in Northern Ireland, being owner and operator of the licence for the gas distribution network in Greater Belfast and Larne.
- Phoenix Supply (PSL) – the market leader in gas supply in Northern Ireland providing natural gas to customers from the PNG distribution network.
- Phoenix Energy (PEL) – a gas supply company operating in the Republic of Ireland which commenced trading in the latter part of 2009 and was established to expand the Group's retail activities across the island of Ireland.
- Phoenix Energy Services (PES) – a specialist provider of downstream services into the Northern Ireland energy market including services to PNG and PSL as well as the provision of maintenance and appliance servicing to energy consumers.

Strategy Update

The Group's Strategy is:

- The expansion of its gas distribution network in Northern Ireland in line with its licence requirements through the development of the natural gas market and connection of new customers.
- To operate its businesses efficiently within the relevant regulatory environment (i.e. PNG & PSL in Northern Ireland and PEL in Republic of Ireland) whilst providing service excellence to its customers.
- To grow its non-regulated business' in other markets such as through PES increasing the number of customers using its service.

Divisional Review

PHOENIX NATURAL GAS (PNG)

PNG, the distribution business, continues to invest in extending the network and expanding the utilisation of gas through the marketing of natural gas to prospective customers and,

thereafter, through the connection of new customers to the gas network in its licence Area. PNG is in the process of reinforcing its network within the Belfast Harbour estate in order to meet the growing demands from new customers in this area as a result of continued economic re-generation of the Titanic area of the city.

The PNG network now extends to around 3,126km of intermediate, medium and low pressure gas-mains, which distributes natural gas to more than 289,000 potential customers. To date 143,800 (50%) properties have been connected to the gas network.

The network has operated without major incident in the year to date with no physical interruption being required throughout the winter period. A new all-time peak 'gas-flow' day of 24.4GWH was experienced towards the end of 2010 on 21st December 2010, during the extremely cold winter weather experienced at that time. Since the beginning of 2011, weather has been warmer than average and much warmer than the weather experienced in 2010.

PNG has continued to develop its systems and processes to meet the requirements of supply competition, following the introduction of domestic competition for credit customers in November 2010. The systems and processes required to facilitate customers using quantum (debt-recovery) meters opened up in the first quarter 2011, whilst 'pay as you go' customers will be able to switch suppliers following development changes by the payment infrastructure provider from August 2011.

PNG is currently in consultation with the Northern Ireland Authority for Utility Regulation (NIAUR) with regard to its latest price control commencing 1 January 2012. This is an interim two-year price control to facilitate aligning PNG's price control period with that of firmus energy, the other gas distribution licence holder in NI. NIAUR have issued a public consultation paper on its draft proposals for this price control on 26th August 2011 and PNG is currently in the process of preparing a response to this document in advance of the end of the consultation period on 21st October 2011.

PNG reached an agreement in August 2011 with RBS to re-finance its bank facilities which were due to mature in 2012. The terms of these new facilities have been agreed for a further 3 years (to August 2014) and have been designed to facilitate the financing of PNG's future capital expenditure and working capital requirements.

PHOENIX SUPPLY (PSL)

PSL, the Group's main gas supply division currently supplies gas to the majority of customers in PNG's licence area in Greater Belfast and Larne.

PSL had reduced its prices substantially in 2009 and maintained them at this level throughout 2010. However as a result of the significant rise in the wholesale cost of gas in

the early part of this year, PSL announced a 39.1% increase in its tariffs to take effect from 1 May 2011.

PSL's main competitor in the domestic tariff sector, firmus energy (a subsidiary of BGE) took the opportunity to delay any review of its prices until 1 October 2011, thereby enabling them to operate at a significant discount to PSL. As a result the level of customers who have switched from PSL to firmus has increased to 4% at the end of June 2011 compared to 1% at the end of 2010.

The gas supply market in the Greater Belfast area has been open to competition since January 2007. However, only in the past 12-months has competition intensified to all sectors of the market. PSL continues to maintain its position as market leader in NI and supplied c86% of the total gas distributed in the 6-month period to the end of June 2011.

PSL is currently in consultation with the NIAUR with regard to its latest price control commencing 1 January 2012. This is expected to be a 5-year price control with a review after 3-years. Based on consultation papers issued by NIAUR to date it is expected to be structured along the lines of PSL's existing control. A final determination is expected during October 2011.

PHOENIX ENERGY SERVICES (PES)

PES has continued to expand its business in the first-half of 2011, both internally to PNG and PSL, in line with growth of the gas network and increasing customer base and to the wider energy market through the provision of 'on demand' service and maintenance products and services.

The apprentice development scheme operated within PES continues to deliver high calibre safety focused engineers to the business at a competitive cost, which will be critical over the coming years as economic conditions improve. The success of its new NVQ 6012 gas technical apprenticeship scheme has been recognised nationally by the Institute of Gas Engineering Managers (IGEM).

PHOENIX ENERGY (PEL)

Phoenix Energy Limited was established to expand the Group's retail activities to the Republic of Ireland (ROI) and initially target the large industrial and commercial sector of the market.

The company commenced supplying natural gas in ROI on 1st November 2009, initially in the above regulated tariff (RTF) sector. By the end of 2010, PEL had grown its market share in this sector to around 23% of all volumes and as a result has extended its offering into the RTF market sector.

PEL continues to grow its customer base and has added a number of well known Irish brands to its growing list of customers. During the year the successful entry into this market and the significant growth it has achieved was recognised when the company won a Global Business Excellence Award for Outstanding Fast Growth.

The company operates under licence granted by the Commission for Energy Regulation and anticipates a further period of growth ahead.

Corporate Social Responsibility

The Group's award-winning integrated Corporate Social Responsibility (CSR) programme is called LIFE and stands for: Leadership in the marketplace, Investing in our people, Fostering our community and Environmental responsibility. LIFE was developed to provide an overarching framework for the range of ongoing initiatives carried out by the Group that positively impact our marketplace, workplace, environment and community. We are delighted to have, for the seventh-year running, received national recognition for our efforts by collecting the Business In The Community (BITC) 'Big Tick' award for CSR excellence.

Phoenix's investment in CSR has been developed to optimise the benefit to the Group and society, delivering a clear win-win situation. The financial resources attributed to LIFE are far outweighed by the voluntary effort, commitment and time given by staff to maximising the impact of all initiatives pursued.

Conclusion

The operating environment for the Group remains challenging, with the economic pressures on businesses and homeowners arising out of the down-turn in the housing market, reduced public expenditure and high inflation continuing to impact on consumer confidence.

Whilst the extremely cold winter boosted demand last year, temperatures have been warmer than average in 2011, thereby reducing gas consumption relative to historical levels. However the high price of oil, consumer experiences over recent winters and the lower propensity of customers to move house, has focused customers minds on home improvements - this especially being the case if it enables them to improve their lifestyle, reduce their energy bills and enhance the value of their property. The boost in gas conversions experienced towards the end of 2010 has been maintained in the first half of 2011.

The focus on the expansion of the network and customer base in a market now open to supply competition whilst building, maintaining and operating the business in line with regulatory requirements continues to provide clear operational drivers for the distribution business into the future.

Our gas supply operation continues to seek to balance costs with incomes whilst servicing customers effectively in a market in NI now fully open to competition whilst also expanding their offerings successfully in other associated markets elsewhere on the island.

Our energy services activity continues to focus on delivering service excellence to customers directly and as a support to the activities of both our distribution and supply activities.

The emphasis of managing the Group's regulatory environment, alongside the commercial realities of enhancing operating performance and financing of its activities coupled to the delivery of shareholder value through effective management of the business, continue to provide a key focus for the management in 2011 and beyond.

The efforts of our staff, in the successful delivery of these goals in the first-half of 2011, remains key and we look forward to reporting further upon our achievements in the second-half of the year.

We will update you with our annual results and report for 2011, which will be published in June 2012.

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