

SERICA ENERGY PLC

SECOND QUARTER 2008 REPORT TO  
SHAREHOLDERS

## **MANAGEMENT OVERVIEW**

### **Summary**

During the first half of 2008, Serica Energy plc ("Serica" or the "Company") has focused its efforts on field development and on accelerating asset return.

By the end of the second quarter, the development wells for the Kambuna field in Indonesia were drilled and tested with a very successful outcome, achieving a combined stabilized flow-rate of 114 million standard cubic feet per day ("mmscf/d") of gas and 8,000 barrels per day ("bpd") of condensate. This is well in excess of the planned sales volume of 50 mmscf/d and fully demonstrates the producing capability of the field. Initial production from the field is expected at year end.

In the North Sea, discussions have been held with UK government Energy Development Unit with a view to commencing development of the Columbus gas condensate field in which the Company has a 50% interest and is Operator. Serica plans to submit a Field Development Plan in the second half of 2008 with the aim of commencing production from Columbus in 2010. With the prevailing high demand for gas in the UK and strong gas prices, early production of the Columbus field would add material additional revenue and production to the Company on top of those expected from the Kambuna field.

In line with the Company's policy of accelerating return from its assets, Serica has recently announced the sale of a 15% interest in the Kambuna field in a package which will increase the Company's cash resources by US\$52.75 million and which values Serica's retained 50% interest in the field at nearly US\$170 million (as at 30<sup>th</sup> June 2008). These figures, plus net current assets at the half year which stood at US\$14.6 million, amount to around US\$238 million, or US\$1.35 per share (68p/share). This does not include Serica's interests in North Sea fields under development (Columbus) or appraisal (Chablis) or the Company's portfolio of exploration prospects in the UK, Ireland, Indonesia and Vietnam, many of which, if successful, have the potential to add considerable value to the Company.

The transaction strengthens the Company's balance sheet with additional cash resources without materially reducing revenues expected from future production. Given its considerably enhanced financial position, which also includes a US\$100 million Senior Debt facility for development expenditure, of which only US\$35 million has been drawn to date, the Company has the resources to fully exploit its portfolio of exploration prospects.

### **Asset Sales**

#### *Indonesian asset sale*

In July the Company announced that it had reached agreement with Salamander Energy plc for the sale of a 15% interest in the Glagah-Kambuna Technical Assistance Contract ("the Kambuna TAC") and a 23.4% interest in the Kutai Production Sharing Contract ("the Kutai PSC"). The total consideration due to Serica, based on an effective date of 1 July 2008, is US\$52.75 million. Completion is subject to certain approvals and consents including that of the Indonesian government.

The Kambuna TAC, located 40 kilometres offshore northern Sumatra, Indonesia, contains the Kambuna gas condensate field in which Serica and Salamander currently hold interests of 65% and 35% respectively (50% each after completion of the transaction). First gas from the Kambuna field is expected to be produced by the end of 2008 with production from the field expected to reach the planned field plateau production rate of 50 mmscf/d of gas plus 4,000 to 5,000 bpd of condensate after fully commissioning the onshore facilities early in 2009.

The Kutai PSC, located onshore and offshore East Kalimantan, Indonesia, is an early stage exploration block operated by Serica with a present interest of 78% (54.6% after completion of the transaction with Salamander Energy). Both 2D and 3D seismic surveys are planned this year in preparation for the commencement of exploratory drilling in 2009.

The Indonesian asset sale demonstrates the viability of our strategy of creating and then realising a portion of the shareholder value added through the drillbit. In addition, from next year we will begin to enjoy significant cash flow from our retained 50% interest in the Kambuna field.

#### *Norwegian disposal*

In June, the Company reached agreement with Spring Energy Norway AS ("Spring") for the sale of Serica's Norwegian subsidiary, Serica Energy Norge AS, which holds all of Serica's interests in Norway, comprising a 20% working interest in Norwegian offshore licences PL406 and PL407. Completion is subject to the receipt of the required Norwegian government approvals to the transaction and to other approvals and consents. The consideration provides for payment in respect of past costs relating to the blocks and includes a contingent payment to reflect the value of the Bream Field at the time that the field is brought onto production. Under the terms of the transaction Serica retains a significant part of the upside value of the Bream field without being exposed to further appraisal and development costs or to the commitment of additional resources.

### **Field Appraisal and Development**

#### ***Kambuna Field, Offshore North Sumatra, Indonesia***

##### *Development drilling and testing*

Significant progress has been made during the first half on development activities in the Kambuna field. The Kambuna Field production platform has been installed and three development wells have been drilled and tested with very positive results.

In Q2 2008, the Kambuna No. 3 and No. 4 deviated development wells were drilled from the Kambuna production platform, installed in Q1 2008 at the location of the Kambuna No. 2 well, the first of the three development wells drilled in 1H 2008. Kambuna No. 3 was drilled to a total depth of 7,483 ft true vertical depth below mean sea level ("TVDSS"). The well entered the target Belumai reservoir at a depth of 7,166 ft TVDSS and encountered gas-bearing sands over an interval of 107 ft with a net pay of 77 ft (67 vertical ft). Kambuna No. 4 was drilled to a total depth of 7,408 ft TVDSS. The well entered the Belumai reservoir at 7,140 ft TVDSS and encountered gas-bearing sands over an interval of 115 ft with a net pay of 107 ft (66 vertical ft). There was no indication of a gas-water contact in any of these wells.

By the end of the first half, all three Kambuna production wells had been successfully completed and tested. The Kambuna-2 well was tested at a stabilised rate of 33 mmscf/d, the Kambuna-3 well was tested at a stabilised rate of 40 mmscf/d and the Kambuna-4 well was tested at a stabilised rate of approximately 41 mmscf/d.

The total maximum stabilised gas rate from the three wells was 114 mmscf/d, together with an estimated 8,000 bpd of condensate. This rate was considerably higher than previously expected and exceeds the initial sales gas target of 50 mmscf/d by a significant margin.

### *Sales contracts*

In Q1 2008 Serica announced the agreement of commercial terms for the sale of 28 mmscfd to the state electricity generator, PT Perusahaan Listrik Negara ("PLN") and 12 mmscfd to PT Pertiwi Nusantara Resources ("Pertiwi"). In May, the heads of agreement of these two contracts were formally signed at the opening ceremony of the Indonesia Petroleum Congress in Jakarta, Indonesia. The contract with PLN will realise an initial price of approximately US\$5.40 per thousand standard cubic feet ("mcf") escalating at 3% per annum. The contract with Pertiwi will realise an initial price of approximately US\$7 per mcf, escalating at 3% per annum. In addition to these contracts, the Company expects to enter into a third contract to bring total contracted gas sales to 50 mmscfd. Serica anticipates that, when the third sales contract has been completed, the average realisation will be approximately US\$6 per mcf. In addition to the gas, Serica initially expects to be marketing 4,000-5,000 bpd of condensate at a price close to that of light crude oil.

### *Forward plans*

Serica is currently updating its Kambuna field reservoir model to investigate whether a further increase in planned sales volumes can be justified, particularly given the strong gas prices now being realised for domestic gas sales. Onshore and offshore facilities and a 14-inch offshore pipeline are to be installed later this year, with the pipeline targeted to be commissioned for production in December 2008.

### ***Columbus Field, UK Central North Sea***

Serica is the operator of the Columbus field in UK Block 23/16f and holds a 50% interest. UK gas prices have continued to rise this quarter which adds further impetus to our plans to develop the Columbus gas-condensate field, in which the Company drilled the discovery well in 2006 and two appraisal wells in 2007. A pipeline route survey is planned this summer and Serica expects shortly to submit the Columbus Field Development Plan to the UK authorities. The field lies in close proximity to existing production infrastructure, and negotiations to secure access are in progress, with the expectation that production could commence in 2010. The development will include the drilling of horizontal production wells with sub-sea tie-back to the chosen host production platform.

### ***Chablis Field, UK Southern North Sea***

Serica operates Block 48/16b, which contains the Chablis gas discovery, and holds a 100% interest in the block. A site survey over Chablis has now been completed in preparation for drilling. Serica has secured a jack-up drilling unit with the objective of drilling the first appraisal well in the fourth quarter of 2008. The field is in close proximity to existing production infrastructure and, if successful, would be produced via a sub-sea tie-back to a host platform to achieve the earliest production from the field.

## **Exploration**

### *Indonesia*

In the Kutai PSC in East Kalimantan, Serica is the operator of the Kutai Block and currently holds a 78% interest (reducing to 54.6% after completion of the transaction with Salamander Energy). The Company has contracts in place to acquire 3D and 2D seismic data this year. The 2D seismic survey crew has mobilised to East Kalimantan and acquisition of the 280 km onshore survey is due to commence shortly. The offshore 3D survey contract has been awarded and the vessel is expected to commence acquisition early in August. Discussions with rig contractors are underway to secure drilling capability for a multi well exploration programme in 2009.

### **Vietnam**

Serica holds a 33.33% interest in the Block 06/94 PSC, which is operated by Pearl Energy and lies in the Nam Con Son Basin about 350 kilometres offshore South Vietnam. The Ocean General semi-submersible drilling rig has been contracted and is now expected to commence drilling the first exploration well in 1Q09. A second 1,000 square kilometre 3D seismic survey on the Block was successfully completed in June 2008 and processing has begun to evaluate further the prospectivity of the acreage.

### **Ireland**

Serica is the operator and holds a 100% interest in Blocks 27/4, 27/5 (west) and 27/9 (collectively Licence PEL 01/06), which cover an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland and lie 42 kilometres south of the Corrib gas field, currently being developed by Shell. Four significant prospects have been identified on the blocks and an offshore drill site survey will be carried out in August. Serica has begun detailed well planning in preparation for exploration drilling in the summer of 2009 and a rig contract is currently being negotiated.

### **Spain**

Serica holds a 75% interest and operatorship in its four exploration Permits onshore northern Spain. The 315 kilometre 2D seismic survey, which commenced in 2007, was completed in the first quarter and the gas prospects identified on the Permits are being evaluated.

### **UKCS 25th Round**

Serica submitted several applications in the UK's 25th Offshore Licensing Round which closed in May 2008. The focus was to make applications in areas where the Company has an enhanced technical understanding. Awards are not expected to be announced much before the end of this year.

### **Forward Programme**

For the remainder of 2008 Serica's priority is the completion of the Kambuna field development programme, which includes laying an offshore and onshore pipeline and completing the construction of the required onshore gas and condensate reception facilities. In addition, a field development plan will be submitted for the Columbus field in the UK North Sea and an appraisal well is planned to be drilled in the Chablis field in the UK. In 2009 the Company expects to drill wells in Ireland, the UK, Indonesia and Vietnam. This programme is intended to bring forward development activity and build revenue as rapidly as possible.

Over the next 18 months Serica is planning a major exploration, appraisal and development programme focusing resources on existing projects where we see high potential to improve shareholder value. With US\$52.75 million available on completion of the Indonesian transaction in addition to the cash of US\$42.2 million as at 30 June 2008, Serica is well placed to achieve this programme and to identify new opportunities to enhance and accelerate shareholder value. At a time when many junior companies are finding it increasingly difficult to find sources of funds, Serica's strong finances put it in an excellent position to expand its business by taking advantage of new opportunities as they arise in the sector.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following management's discussion and analysis ("MD&A") of the financial and operational results of Serica Energy plc and its subsidiaries (the "Group") contains information up to and including 1 August 2008 and should be read in conjunction with the attached unaudited interim consolidated financial statements for the period ended 30 June 2008. The interim financial statements for the three and six months ended 30 June 2008 have been prepared by and are the responsibility of the Company's management. The interim financial statements for the six months ended 30 June 2008 and 2007 have been reviewed by the Company's independent auditors.

References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in US dollars ("US\$") unless otherwise stated.

### **Overview**

Serica's activities are centred on the UK and Indonesia, with other interests in Vietnam, Ireland, Spain, and Norway. In 2008 to date, work has continued on furthering the Kambuna development and achieving other strategic goals through corporate transactions. Further details are noted in the Management Overview.

The results of Serica's operations detailed below in this MD&A, and in the financial statements, are presented in accordance with International Financial Reporting Standards ("IFRS").

## Results of Operations

Serica incurred a loss of US\$4.3 million for the three months ended 30 June 2008 ("Q2 2008") compared to a loss of US\$1.6 million for the three months ended 30 June 2007 ("Q2 2007").

	2008 Q2 US\$000	2008 Q1 US\$000	2007 Q4 US\$000	2007 Q3 US\$000	2007 Q2 US\$000	2007 Q1 US\$000
Sales revenue	-	-	-	-	-	-
Expenses:						
Administrative expenses	(2,447)	(1,973)	(2,665)	(1,658)	(1,728)	(1,846)
Foreign exchange gain/(loss)	88	(55)	384	31	(36)	15
Pre-licence costs	(813)	(188)	(74)	(76)	(124)	(101)
Asset write offs	-	(375)	(9,282)	-	-	-
Share-based payments	(581)	(375)	(514)	(485)	(464)	(499)
Depletion and depreciation	(35)	(58)	(63)	(34)	(26)	(26)
Operating loss before finance revenue and taxation	(3,788)	(3,024)	(12,214)	(2,222)	(2,378)	(2,457)
Finance revenue	298	576	498	663	791	862
Finance costs	(785)	(878)	(321)	-	-	-
Loss before taxation	(4,275)	(3,326)	(12,037)	(1,559)	(1,587)	(1,595)
Taxation credit/(charge)	-	-	353	2,796	-	-
(Loss)/profit for the period	(4,275)	(3,326)	(11,684)	1,237	(1,587)	(1,595)
Basic and diluted loss per share	(0.02)	(0.02)	(0.08)	N/A	(0.01)	(0.01)
Basic and diluted earnings per share	N/A	N/A	N/A	0.01	N/A	N/A

Administrative expenses of US\$2.4 million for Q2 2008 increased from US\$2.0 million in Q1 2008, and US\$1.7 million for the same period last year. The increase of US\$0.4 million from the previous quarter can be largely attributed to various corporate costs (including advisor fees) incurred on the recently announced asset disposals. The Company's activities and employee numbers have also increased over the past twelve months, albeit less significantly than from 2006 to 2007.

No significant foreign exchange movements impacted Q2 2008 or Q2 2007 results.

Pre-licence costs include direct cost and allocated general administrative cost incurred on oil and gas interests prior to the award of licences, concessions or exploration rights. The expense of US\$0.8 million for Q2 2008 increased from US\$0.1 million for the same period last year and is mainly attributable to significant work undertaken during the recent quarter on the 25<sup>th</sup> Licencing Round in the UK North Sea.

Share-based payment charges of US\$0.6 million reflect share option grants made and compare with US\$0.4 million for Q1 2008 and US\$0.5 million for Q2 2007. Whilst there has been a decline in the charge of the options granted in 2005, 2006 and 2007, the incremental charge generated from further share options granted in March 2008 has generated an overall increase.

Negligible depletion and depreciation charges in all periods represent office equipment and fixtures and fittings. Those costs of petroleum and natural gas properties classified as exploration and evaluation assets are not currently subject to such charges pending

further evaluation. The Kambuna asset costs classified as 'development' costs and held within plant, property and equipment will be depleted once production commences.

Finance revenue comprising interest income of US\$0.3 million for Q2 2008 compares with US\$0.8 million for Q2 2007 and US\$0.6 million for Q1 2008. Finance revenue fell from Q1 2008 as cash deposit balances raised from the early January 2008 financing were utilised on Indonesian drilling expenditure.

The first drawdown on the senior secured debt facility occurred soon after the facility was arranged in Q4 2007. Finance costs consist of interest payable, issue costs spread over the term of the bank loan facility, and other fees. A second drawdown occurred in June 2008.

The net taxation credit/(charge) was US\$nil in Q2 2008 and Q2 2007.

The net loss per share of US\$0.02 for Q2 2008 compares to a net loss per share of US\$0.01 for Q2 2007.

### **Summary of Quarterly Results**

Quarter ended:	2008 30 Jun	2008 31 Mar	2007 31 Dec	2007 30 Sep	2007 30 Jun	2007 31 Mar	2006 31 Dec	2006 30 Sep
	US\$000							
Sales revenue	-	-	-	-	-	-	-	-
(Loss)/profit for the quarter	(4,275)	(3,326)	(11,684)	1,237	(1,587)	(1,595)	(13,456)	(3,795)
Basic and diluted loss per share US\$	(0.02)	(0.02)	(0.08)	-	(0.01)	(0.01)	(0.09)	(0.03)
Basic and diluted earnings per share	-	-	-	0.01	-	-	-	-

The fourth quarter 2007 loss includes asset write offs of US\$9.0 million in regard to the Biliton PSC.

The fourth quarter 2006 loss includes asset write offs of US\$12.7 million in regard to the Asahan Offshore PSC.

## **Working Capital, Liquidity and Capital Resources**

### Current Assets and Liabilities

An extract of the balance sheet detailing current assets and liabilities is provided below:

	30 June 2008 US\$000	31 March 2008 US\$000	31 Dec 2007 US\$000
<b>Current assets:</b>			
Inventories	4,313	6,051	6,991
Trade and other receivables	10,885	22,076	21,906
Taxation receivable	3,620	3,387	3,387
Financial assets	4,680	-	-
Cash and cash equivalents	<u>42,151</u>	<u>50,931</u>	<u>22,638</u>
Total Current assets	65,649	82,445	54,922
<b>Less Current liabilities:</b>			
Trade and other payables	(16,349)	(28,979)	(23,604)
Financial liabilities	<u>(34,662)</u>	<u>-</u>	<u>-</u>
Net Current assets	<u>14,638</u>	<u>53,466</u>	<u>31,318</u>
Assets held for sale	7,331	-	-
Liabilities associated with assets held for sale	<u>(4,707)</u>	<u>-</u>	<u>-</u>

At 30 June 2008, the Company had net current assets of US\$14.6 million which comprised current assets of US\$65.6 million less current liabilities of US\$51.0 million, giving an overall decrease in working capital of US\$38.8 million in the three month period.

Inventories decreased from US\$6.1 million to US\$4.3 million over the period as materials were utilised in the Kambuna drilling programme.

Trade and other receivables at 30 June 2008 totalled US\$10.9 million, which included US\$3.4 million upfront deposit payments in respect of the Kambuna drilling programme and significant recoverable amounts from partners in Joint Venture operations in the UK and Indonesia. Other smaller items included prepayments and sundry UK and Indonesian working capital balances. The tax receivable represents expected recovery of exploration expenditure from the Norwegian fiscal regime.

Financial assets represent US\$4.7 million of restricted cash deposits, reclassified as a current asset during Q2 2008.

Cash and cash equivalents decreased from US\$50.9 million to US\$42.2 million in the quarter. The Company received US\$25.0 million from the drawdown on the Kambuna loan, offset by cash outgoings in Q2 2008 covering significant capital expenditure on the Kambuna development, operational expenses and other exploration work. In addition cash receipts of US\$0.3 million of interest income were also received in the quarter.

Trade and other payables of US\$16.3 million at 30 June 2008 chiefly include significant trade creditors and accruals from the Kambuna drilling programme, and other creditors and accruals from UK and Indonesia. Other smaller items include sundry creditors and accruals for administrative expenses and other corporate costs. Amounts payable have

fallen by US\$12.6 million from Q1 2008, as significant liabilities in respect of the Kambuna drilling have been settled, together with final payments on the Biliton programme.

Financial liabilities are represented by the first drawdown under the senior secured debt facility, which occurred in Q4 2007, and second drawdown of US\$25.0 million in June 2008. The total includes accrued interest payable and is disclosed net of the unamortised portion of allocated issue costs.

#### Assets held for sale and associated liabilities

The assets and liabilities recorded as at 30 June 2008 in respect of the Norwegian Licence interests being sold, are now classified as part of a disposal group held for sale. Assets held for sale of US\$7.3 million chiefly comprise Norwegian expenditure previously capitalised as exploration and evaluation assets, and liabilities of US\$4.7 million chiefly represent deferred tax liabilities associated with those assets recognised. These assets and associated liabilities are disclosed separately on the Balance Sheet.

#### Long-Term Assets and Liabilities

An extract of the balance sheet detailing long-term assets and liabilities is provided below:

	30 June 2008 US\$000	31 March 2008 US\$000	31 December 2007 US\$000
Exploration and evaluation assets	78,285	75,393	71,874
Property, plant and equipment	58,732	39,274	19,543
Goodwill	768	768	768
Financial assets	-	4,680	4,680
Long-term other receivables	3,508	2,382	1,224
Financial liabilities	-	(9,829)	(9,582)
Deferred income tax liabilities	(523)	(4,589)	(3,910)

During Q2 2008, total investments in petroleum and natural gas properties, represented by exploration and evaluation assets, increased by US\$2.9 million to US\$78.3 million. The US\$2.9 million increase comprised investment of US\$9.0 million partially offset by a reclassification of Norwegian exploration and evaluation assets of US\$6.1 million as 'assets held for sale', effective at the period end date. Of the total Q2 2008 investment of US\$9.0 million, in Southeast Asia, US\$4.1 million of cost was incurred in Vietnam, (principally on the 3D Seismic survey completed in June 2008) and US\$2.5 million was incurred on seismic, exploration work and G&A on the Kutai concession in Indonesia. In the UK & NW Europe, US\$1.6 million of expenditure was incurred in the UK and Ireland on exploration work and G&A, including site survey cost on the Chablis discovery. US\$0.8 million related to Norway with negligible spend in Spain.

The US\$19.4 million increase in property, plant and equipment from US\$39.3 million to US\$58.7 million is caused by expenditure of US\$19.4 million during the quarter on the Kambuna development. The property, plant and equipment also includes immaterial balances of US\$0.3 million for office fixtures and fittings and computer equipment.

Goodwill, representing the difference between the price paid on acquisitions and the fair value applied to individual assets, remained unchanged at US\$0.8 million.

Financial assets represented by US\$4.7 million of restricted cash deposits at 31 December 2007 and 31 March 2008 are now classified in current assets.

Long-term other receivables of US\$3.5 million represented value added tax ("VAT") on Indonesian capital spend, which would be recovered from future production.

Financial liabilities represented by drawdowns under the senior secured debt facility are now classified in current liabilities.

The retained deferred income tax liability of US\$0.5 million arises in respect of certain capitalised assets retained in the group. Liabilities previously recognised as arising from capitalised Norwegian exploration and evaluation assets have been reclassified as part of the disposal group held for sale noted above.

#### Shareholders' Equity

An extract of the balance sheet detailing shareholders' equity is provided below:

	30 June 2008 US\$000	31 March 2008 US\$000	31 December 2007 US\$000
Total share capital	207,633	207,452	158,871
Other reserves	14,685	14,104	13,729
Accumulated deficit	(64,286)	(60,011)	(56,685)

Total share capital includes the total net proceeds (both nominal value and any premium on the issue of equity capital). Issued share capital during Q1 2008 was increased by the issue of 19,826,954 ordinary shares at £1.02 and 4,943,400 at Cdn\$2.10, and during Q2 2008 increased by the issue of 100,000 ordinary shares at C\$1.80 following the exercise of options.

Other reserves mainly include amounts credited in respect of cumulative share-based payment charges. The increase in other reserves from US\$14.1 million to US\$14.7 million reflects the amortisation of share-based payment charges in Q2 2008.

#### Capital Resources

At 30 June 2008, Serica had US\$14.6 million of net working capital, no long-term debt and no capital lease obligations. At that date, the Company had commitments to future minimum payments under operating leases in respect of rental office premises, office equipment and motor vehicles for each of the following periods/years as follows:

	US\$000
31 December 2008	191
31 December 2009	389
31 December 2010	83

At 30 June 2008, Serica also has amounts contracted but not provided in the financial statements of US\$19.5 million of gross capital expenditure on the Kambuna development. Serica's net share of these costs is expected to be approximately 46.4%.

The Company also has obligations to carry out defined work programmes on its oil and gas properties, under the terms of the award of rights to these properties, over the next twelve months as follows:

Twelve months ending 30 June 2009 US\$12,572,000

These obligations reflect the Company's share of interests in the defined work programmes and were not formally contracted at 30 June 2008. The Company is not obliged to meet other joint venture partner shares of these programmes.

In the absence of revenues generated from oil and gas production Serica intends to utilise its existing cash balances, US\$52.8 of proceeds arising from the Indonesian asset sales together with the remainder of the US\$100 million senior secured debt facility, to fund the immediate needs of its investment programme and ongoing operations.

#### Off-balance Sheet Arrangements

The Company has not entered into any off-balance sheet transactions or arrangements.

#### Critical Accounting Estimates

The Company's principal accounting policies are detailed in note 2 to the attached financial statements. International Financial Reporting Standards have been adopted. The cost of exploring for and developing petroleum and natural gas reserves are capitalised. Unproved properties are subject to periodic impairment tests whilst the costs of proved properties are depleted over the life of such producing fields. In each case, calculations are based upon management assumptions about future outcomes, product prices and performance.

#### Financial Instruments

The Group's financial instruments comprise cash and cash equivalents, short term restricted cash deposits, bank loans and borrowings, accounts payable and accounts receivable. It is the management's opinion that the Group is not exposed to significant currency, interest or credit risks arising from its financial instruments other than as discussed below:

Serica has exposure to interest rate fluctuations; given the level of expenditure plans over 2008/9 this is managed in the short-term through selecting treasury deposit periods of one to six months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

Where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from these third parties. The majority of partners in these ventures are well established oil and gas companies. In the event of non payment, operating agreements typically provide recourse through increased venture shares.

It is the management's opinion that the fair value of its financial instruments approximate to their carrying values, unless otherwise noted.

## **Share Options**

As at 30 June 2008, the following director and employee share options were outstanding: -

	<b>Expiry Date</b>	<b>Amount</b>	<b>Exercise cost</b>
		Cdn\$	
Share options	Feb 2009	247,500	495,000
	May 2009	100,000	200,000
	Dec 2009	275,000	275,000
	Jan 2010	600,000	600,000
	Jun 2010	1,100,000	1,980,000
			<b>Exercise cost</b>
			£
	Nov 2010	561,000	544,170
	Jan 2011	1,275,000	1,319,625
	May 2011	180,000	172,800
	June 2011	270,000	259,200
	Nov 2011	120,000	134,400
	Jan 2012	1,056,000	1,077,120
	May 2012	405,000	421,200
	August 2012	1,200,000	1,182,000
	March 2013	1,812,000	1,359,000
	March 2013	850,000	697,000

## **Business Risk and Uncertainties**

Serica, like all exploration companies in the oil and gas industry, operates in an environment subject to inherent risks. Many of these risks are beyond the ability of a company to control, particularly those associated with the exploring for and developing of economic quantities of hydrocarbons: volatile commodity prices; governmental regulations; and environmental matters.

## **Nature and Continuance of Operations**

The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe.

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company currently has no operating revenues, and during the three month period ended 30 June 2008 the Company generated a loss of US\$4.3 million from continuing operations. At 30 June 2008, the Company held cash and cash equivalents of US\$42.2 million and a financial asset of restricted cash of US\$4.7 million.

## **Outstanding Share Capital**

As at 1 August 2008, the Company had 176,518,311 ordinary shares issued and outstanding.

## **Additional Information**

Additional information relating to Serica can be found on the Company's website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com)

Approved on Behalf of the Board

Paul Ellis  
Chief Executive Officer

Christopher Hearne  
Finance Director

4 August 2008

## **Forward Looking Statements**

This disclosure contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond Serica Energy plc's control, including: the impact of general economic conditions where Serica Energy plc operates, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Serica Energy plc's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that Serica Energy plc will derive therefrom. Serica undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable laws.

The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.

To receive Company news releases via email, please contact [sasha@chfir.com](mailto:sasha@chfir.com) and specify "Serica press releases" in the subject line.

**Serica Energy plc**  
**Consolidated Group Income Statement**

Unaudited	Three months ended 30 June 2008	Three months ended 30 June 2007	Six months ended 30 June 2008	Six months ended 30 June 2007
Notes	US\$000	US\$000	US\$000	US\$000
<b>Sales revenue</b>	-	-	-	-
Cost of sales	-	-	-	-
<b>Gross profit</b>	-	-	-	-
Administrative expenses	(2,447)	(1,728)	(4,420)	(3,574)
Foreign exchange gain/(loss)	88	(36)	33	(21)
Pre-licence costs	(813)	(124)	(1,001)	(225)
Asset write offs	-	-	(375)	-
Share-based payments	(581)	(464)	(956)	(963)
Depreciation and depletion	(35)	(26)	(93)	(52)
<b>Operating loss before finance revenue and tax</b>	(3,788)	(2,378)	(6,812)	(4,835)
Finance revenue	298	791	874	1,653
Finance costs	(785)	-	(1,663)	-
<b>Loss before taxation</b>	(4,275)	(1,587)	(7,601)	(3,182)
Taxation credit for the period	-	-	-	-
<b>Loss for the period</b>	<u>(4,275)</u>	<u>(1,587)</u>	<u>(7,601)</u>	<u>(3,182)</u>
Earnings per ordinary share (US\$):				
Basic and diluted loss per share	(0.02)	(0.01)	(0.04)	(0.02)

**Serica Energy plc**  
**Consolidated Balance Sheet**

	Notes	30 June 2008 (Unaudited)	31 March 2008 (Unaudited)	31 Dec 2007 (Audited)	30 June 2007 (Unaudited)
<b>Non-current assets</b>					
Exploration and evaluation assets		78,285	75,393	71,874	58,470
Property, plant and equipment		58,732	39,274	19,543	327
Goodwill		768	768	768	1,200
Financial assets		-	4,680	4,680	-
Other receivables		3,508	2,382	1,224	527
		<u>141,293</u>	<u>122,497</u>	<u>98,089</u>	<u>60,524</u>
<b>Current assets</b>					
Inventories		4,313	6,051	6,991	6,438
Trade and other receivables		10,885	22,076	21,906	7,147
Taxation receivable		3,620	3,387	3,387	-
Financial assets		4,680	-	-	-
Cash and cash equivalents		42,151	50,931	22,638	56,622
		<u>65,649</u>	<u>82,445</u>	<u>54,922</u>	<u>70,207</u>
Assets held for sale	4	7,331	-	-	-
<b>TOTAL ASSETS</b>		<b>214,273</b>	<b>204,942</b>	<b>153,011</b>	<b>130,731</b>
<b>Current liabilities</b>					
Trade and other payables		(16,349)	(28,979)	(23,604)	(4,413)
Financial liabilities		(34,662)	-	-	-
<b>Non-current liabilities</b>					
Financial liabilities		-	(9,829)	(9,582)	-
Deferred income tax liabilities		(523)	(4,589)	(3,910)	(955)
Liabilities associated with assets held for sale	4	(4,707)	-	-	-
<b>TOTAL LIABILITIES</b>		<b>(56,241)</b>	<b>(43,397)</b>	<b>(37,096)</b>	<b>(5,368)</b>
<b>NET ASSETS</b>		<b>158,032</b>	<b>161,545</b>	<b>115,915</b>	<b>125,363</b>
Share capital	5	207,633	207,452	158,871	158,871
Other reserves		14,685	14,104	13,729	12,730
Accumulated deficit		(64,286)	(60,011)	(56,685)	(46,238)
<b>TOTAL EQUITY</b>		<b>158,032</b>	<b>161,545</b>	<b>115,915</b>	<b>125,363</b>

**Serica Energy plc**  
**Statement of Changes in Equity**  
For the period ended 30 June 2008

<b>Group</b>	Share capital US\$000	Other reserves US\$000	Deficit US\$000	Total US\$000
At 1 January 2008 (audited)	158,871	13,729	(56,685)	115,915
New shares issued (net)	48,581	-	-	48,581
Share-based payments	-	375	-	375
Loss for the period	-	-	(3,326)	(3,326)
At 31 March 2008 (unaudited)	207,452	14,104	(60,011)	161,545
Conversion of options	181	-	-	181
Share-based payments	-	581	-	581
Loss for the period	-	-	(4,275)	(4,275)
At 30 June 2008 (unaudited)	207,633	14,685	(64,286)	158,032

<b>Group</b>	Share capital US\$000	Other reserves US\$000	Deficit US\$000	Total US\$000
At 1 January 2007 (audited)	157,283	11,767	(43,056)	125,994
Conversion of options	534	-	-	534
Share-based payments	-	499	-	499
Loss for the period	-	-	(1,595)	(1,595)
At 31 March 2007 (unaudited)	157,817	12,266	(44,651)	125,432
Conversion of options	1,054	-	-	1,054
Share-based payments	-	464	-	464
Loss for the period	-	-	(1,587)	(1,587)
At 30 June 2007 (unaudited)	158,871	12,730	(46,238)	125,363

**Serica Energy plc**  
**Consolidated Cash Flow Statement**

Unaudited	Three months ended 30 June 2008 US\$000	Three months ended 30 June 2007 US\$000	Six months ended 30 June 2008 US\$000	Six months ended 30 June 2007 US\$000
Cash flows from operating activities:				
Operating loss	(3,596)	(2,378)	(6,812)	(4,835)
Adjustments for:				
Depreciation and depletion	35	26	93	52
Asset write-offs	-	-	375	-
Share-based payments	581	470	956	963
Changes in working capital	(2,277)	(58)	2,465	(5,030)
Cash generated from operations	(5,257)	(1,940)	(2,923)	(8,850)
Taxes received	-	-	-	-
<b>Net cash flow from operations</b>	<b>(5,257)</b>	<b>(1,940)</b>	<b>(2,923)</b>	<b>(8,850)</b>
Cash flows from investing activities:				
Interest received	298	811	874	1,673
Interest paid	(800)	-	(800)	-
Proceeds from disposals	-	-	-	5,000
Purchases of property, plant & equipment	(18,294)	(37)	(37,973)	(37)
Purchases of exploration and evaluation assets	(9,908)	(14,387)	(13,427)	(19,004)
<b>Net cash used in investing</b>	<b>(28,704)</b>	<b>(13,613)</b>	<b>(51,326)</b>	<b>(12,368)</b>
Cash proceeds from financing activities:				
Loan drawdowns	25,000	-	25,000	-
Issue of shares (net)	-	-	48,581	-
Proceeds on exercise of warrants/options	181	-	181	534
<b>Net cash from financing activities</b>	<b>25,181</b>	<b>-</b>	<b>73,762</b>	<b>534</b>
<b>Cash and cash equivalents</b>				
Net (decrease)/increase in period	(8,780)	(15,553)	19,513	(20,684)
Amount at start of period	50,931	72,175	22,638	77,306
Amount at end of period	<b>42,151</b>	<b>56,622</b>	<b>42,151</b>	<b>56,622</b>

## **Serica Energy plc**

### **Notes to the Unaudited Consolidated Financial Statements**

#### **1. Corporate information**

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2008 were authorised for issue in accordance with a resolution of the directors on 4 August 2008.

Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The Company's ordinary shares are traded on AIM and the TSX Venture Exchange. The principal activity of the Company is to identify, acquire and exploit oil and gas reserves.

#### **2. Basis of preparation and accounting policies**

##### **Basis of Preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with IAS 34 Interim Financial Reporting.

These unaudited interim consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards following the same accounting policies and methods of computation as the consolidated financial statements for the year ended 31 December 2007. These unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements and the notes thereto in the Serica Energy plc annual report for the year ended 31 December 2007.

##### **Significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the adoption of the following new standards and interpretations, noted below,

IFRIC 11 'IFRS2 - Group and Treasury Share Transactions' – Effective for periods starting after 1 March 2007

IFRIC 12 'Service Concession Arrangements' – Effective date 1 January 2008

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' – Effective date 1 January 2008

The adoption of these did not affect the Group's results of operations or financial position.

The Group financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (US\$000) except when otherwise indicated.

##### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Serica Energy Corporation, Serica Energy Holdings B.V., Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Serica Energia Iberica S.L., Serica Holdings UK Limited, Serica Energy (UK) Limited, PDA Lematan Limited, APD (Asahan) Limited, APD (Biliton) Limited, APD (Glagah Kambuna)

Limited, Serica Energy Pte Limited, Serica Kutei B.V., Serica Nam Con Son B.V. and Serica Norge AS. Together, these comprise the "Group".

All inter-company balances and transactions have been eliminated upon consolidation.

### **3. Segmental Information**

The primary segment reporting format is determined to be geographical segments and they are based on the location of the Group's assets. The Group has only one business segment, that of oil & gas exploration.

The following tables present revenue and profit information regarding the Group's geographical segments for the six months ended 30 June 2008 and 2007.

Six months ended 30 June 2008	Indonesia & Vietnam US\$000	UK & NW Europe US\$000	Spain US\$000	Total US\$000
Revenue	-	-	-	-
Segment and operating loss	(922)	(5,851)	(39)	(6,812)

Six months ended 30 June 2007	Indonesia & Vietnam US\$000	UK & NW Europe US\$000	Spain US\$000	Total US\$000
Revenue	-	-	-	-
Segment and operating loss	(674)	(4,054)	(107)	(4,835)

### **4. Discontinued Operation**

In June, the Company reached agreement with Spring Energy Norway AS ("Spring") for the sale of Serica's Norwegian subsidiary, Serica Energy Norge AS, which holds all of Serica's interests in Norway, comprising a 20% working interest in Norwegian offshore licences PL406 and PL407. Completion is subject to the receipt of the required Norwegian government approvals to the transaction and to other approvals and consents.

The base consideration provides for payment in respect of past costs relating to the blocks. Although the transaction has not yet completed, assets and liabilities held as at 30 June 2008 in respect of the Norwegian interests being sold, are now classified as part of a disposal group held for sale. Assets held for sale of US\$7.3 million chiefly comprise Norwegian expenditure previously capitalised as exploration and evaluation assets, and liabilities of US\$4.7 million chiefly represent deferred tax liabilities associated with the assets recognised. These assets and liabilities are disclosed separately on the Balance Sheet, and there is no significant net Income Statement impact arising from recognition at fair value less costs to sell.

There is no significant impact of this disposal group on the Income Statement for the six months ended 30 June 2008 or 30 June 2007. Cash outflows of the disposal group for the six months ended 30 June 2008 totalled US\$1.7 million (six months ended 30 June 2007: US\$2.7 million) being expenditure incurred on Norwegian exploration and evaluation assets.

The agreement also includes a contingent payment to reflect the value of the Bream Field at the time that the field is brought onto production. Under the terms of the transaction Serica retains a significant part of the upside value of the Bream field without being exposed to further appraisal and development costs or to the commitment of additional resources.

## 5. Equity Share Capital

	30 June 2008 Number	30 June 2008 US\$000	31 December 2007 Number	31 December 2007 US\$000
<b>Authorised:</b>				
Ordinary shares of US\$0.10	250,000,000	25,000	200,000,000	20,000
Ordinary 'A' share of £50,000	1	90	1	90
	<b>250,000,001</b>	<b>25,090</b>	<b>200,000,001</b>	<b>20,090</b>

On incorporation, the authorised share capital of the Company was £50,000 and US\$20,000,000 divided into one 'A' share of £50,000 and 200,000,000 ordinary shares of US\$0.10 each, two of which were issued credited as fully paid to the subscribers to the Company's memorandum of association. In January 2008 the authorised ordinary share capital was increased from 200,000,000 ordinary shares to 250,000,000 ordinary shares of US\$0.10.

The balance classified as total share capital includes the total net proceeds (both nominal value and share premium) on issue of the Group and Company's equity share capital, comprising US\$0.10 ordinary shares.

### Allotted, issued and fully paid:

Group	Number	Share capital US\$000	Share premium US\$000	Total Share capital US\$000
As at 1 January 2008	151,647,957	15,255	143,616	158,871
Shares issued (1)	24,770,354	2,477	46,104	48,581
As at 31 March 2008	176,418,311	17,732	189,720	207,452
Options exercised (2)	100,000	10	171	181
As at 30 June 2008	176,518,311	17,742	189,891	<b>207,633</b>

(1) From 1 January 2008 until 31 March 2008, 19,826,954 ordinary shares were issued at £1.02 and 4,943,400 at Cdn\$2.10. The proceeds net of expenses are credited to share capital and share premium.

(2) From 1 April 2008 until 30 June 2008, 100,000 share options were converted to ordinary shares at a price of Cdn\$1.80.

## 6. Share-Based Payments

### Share Option Plans

Following a reorganisation (the "Reorganisation") in 2005, the Company established an option plan (the "Serica 2005 Option Plan") to replace the Serica Energy Corporation Share Option Plan (the "Serica BVI Option Plan").

Serica Energy Corporation ("Serica BVI") was previously the holding company of the Group but, following the Reorganisation, is now a wholly owned subsidiary of the Company. Prior to the Reorganisation, Serica BVI issued options under the Serica BVI Option Plan and, following the Reorganisation, the Company has agreed to issue ordinary

shares to holders of Serica BVI Options already awarded upon exercise of such options in place of the shares in Serica BVI to which they would be entitled. There are currently options outstanding under the Serica BVI Option Plan entitling holders to acquire up to an aggregate of 2,322,500 ordinary shares of the Company. No further options will be granted under the Serica BVI Option Plan.

The Company has granted 7,984,000 options under the Serica 2005 Option Plan, 7,729,000 of which are currently outstanding. The Serica 2005 Option Plan will govern all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group.

The Serica 2005 Option Plan is comprised of two parts, the basic share option plan and a part which constitutes an Enterprise Management Incentive Plan ("EMI Plan") under rules set out by the H.M. Revenue & Customs in the United Kingdom. Options granted under the Serica 2005 Option Plan can be granted, at the discretion of the Board, under one or other of the two parts but, apart from certain tax benefits which can accrue to the Company and its UK employees if options are granted under the part relating to the EMI Plan meeting the conditions of that part of the Serica 2005 Option Plan, all other terms under which options can be awarded under either part are substantially identical.

The Directors intend that the maximum number of ordinary shares which may be utilised pursuant to the Serica 2005 Option Plan will not exceed 10 per cent. of the issued ordinary shares of the Company from time to time, in line with the recommendations of the Association of British Insurers.

In December 2005, 330,000 options were awarded to executive directors exercisable only if certain performance targets are met. 110,000 of these were cancelled during Q2 2007. In August 2007, 1,200,000 options were awarded to non-executive directors exercisable only if certain performance targets are met. In March 2008, 850,000 options were awarded to executive directors exercisable only if certain performance targets are met. The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain performance targets) to estimate the fair value of share options at the date of grant. The estimated fair value of options is amortised to expense over the options' vesting period. US\$581,000 has been charged to the income statement in the quarter ended 30 June 2008 and a similar amount credited to other reserves.

The assumptions made for the options granted during 2005, 2006, 2007 and 2008 include a weighted average risk-free interest rate of 6%, no dividend yield and a weighted average expected life of options of three years. The volatility factor of expected market price of 50% used for options granted during 2005 and 2006 was reduced to 40% for options granted in 2007 and 2008.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the period:

<b>Serica BVI Option Plan</b>	<b>Number</b>	<b>WAEP Cdn\$</b>
Outstanding at 31 December 2007 and 31 March 2008	2,722,500	1.57
Exercised during the period	(100,000)	1.80
Cancelled during the period	(300,000)	1.80
Outstanding at 30 June 2008	2,322,500	1.53

<b>Serica 2005 Option Plan</b>	<b>£</b>
Outstanding at 31 December 2007	5,067,000
Granted during the period	2,662,000
Outstanding at 31 March 2008 and 30 June 2008	<hr/> 7,729,000
	0.92

## **7. Taxation**

The major components of income tax in the consolidated income statement are:

	For six months ended 30 June	
	2008	2007
	US\$000	US\$000
Current income tax credit	1,320	-
Deferred income tax charge	(1,320)	-
Total tax charge/(credit)	<hr/> -	<hr/> -

In 2008, expected tax recoveries from Norwegian expenditure were recorded as a current income tax credit, which was offset by a deferred income tax charge from the timing differences arising from capitalised exploration expenditure.

## **8. Subsequent Events**

In July 2008 the Company announced that it had reached agreement with Salamander Energy plc for the sale of a 15% interest in the Glagah-Kambuna Technical Assistance Contract ("the Kambuna TAC") and a 23.4% interest in the Kutai Production Sharing Contract ("the Kutai PSC") to a subsidiary of Salamander. The total consideration due to Serica, based on an effective date of 1 July 2008, is US\$52.75 million. Completion is subject to the required government and partner consents.

## **9. Publication of Non-Statutory Accounts**

The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 31 December 2007. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

This interim statement will be made available at the Company's registered office at 87-89 Baker Street, London W1U 6RJ and on its website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com)

## INDEPENDENT REVIEW REPORT TO SERICA ENERGY PLC

### Introduction

We have been engaged by the company to review the condensed interim consolidated financial statements in the report to the shareholders for the six months ended 30 June 2008 which comprises the consolidated Income Statement, the consolidated Balance Sheet, consolidated Statement of Changes in Equity, consolidated Cash Flow Statement, and related notes 1 to 9. We have read the other information contained in the report to shareholders and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim consolidated financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

### Directors' Responsibilities

The report to shareholders is the responsibility of, and has been approved by, the directors.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed interim consolidated financial statements included in this report to shareholders have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed interim consolidated financial statements in the report based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements in the report for the six months ended 30 June 2008 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

**Ernst & Young LLP**

London

4 August 2008