Dana Gas PJSC and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

DANA GAS PJSC
Report of the Directors

The Board of Directors of Dana Gas ("Dana Gas" or the "Company") are pleased to announce the consolidated results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2008.

Principal Activities

Dana Gas was incorporated in the Emirate of Sharjah ("Sharjah"), United Arab Emirates, as a public joint stock company on 20 November 2005 pursuant to incorporation decree number 429/2005 issued by the Ministry of Economy.

Dana Gas is Middle East's first and largest private sector natural gas company. The group currently operates in the MENASA (Middle East, North Africa & South Asia) Region across the natural gas value chain; from exploration and production, through gas processing and transportation, to the distribution, marketing and utilization of gas as feedstock and fuel to the petrochemical, industrial and the power sectors. Since its establishment, the Company has grown from a small core team at its head office in Sharjah to a regional, as well as international natural gas company with over 300 professional staff and further offices in UK, Egypt, Saudi Arabia, Bahrain and the Kurdistan Region of Iraq.

Operating Results

Following commencement of operating revenues on 10 January 2007, Dana Gas has continued to build upon its operating performance. The year 2008 was one of major achievements for Dana Gas with the start up of gas production in the Kurdistan Region of Iraq (KRI), very significant reserve appraisals of its 2 Fields in the KRI and significant exploration success in Egypt, which almost doubled the Company's gas reserves in Egypt, rounding off a year in which the Company continued to build on its asset base.

Results for the year ended 31 December 2008

During the year Dana Gas achieved revenues of AED 1.139 billion and grew gross operated production volumes by over 50% with start-up of its major gas project in the Kurdistan Region of Iraq. The net profit for the year was AED 120 million after adjusting for non cash depreciation and depletion of AED 301 million and finance costs of AED 263 million on the USD 1 billion Convertible Sukuk issued in 2007. The ongoing financial crisis has had minimal impact on the Group as approximately 80% of production volumes in Egypt are gas, which is sold at fixed prices. Further, Dana Gas has had no exposure to stock market investments and has an adequate cash position to fund its project and operational requirements, having successfully raised USD 1 billion through a convertible Sukuk in late 2007 despite a tightening credit market.

Liquidity and Financial Resources

During the year, the Company's operating cash flow and the cash and bank balances were primarily used to fund its development program in the Kurdistan Region of Iraq and exploration program in Egypt.

The Group's cash and bank balances as at 31 December 2008 stood at AED 798 million (USD 217 million). The Group's liquidity has not been negatively impacted by the ongoing financial crisis and it has sufficient cash and future cash flows to fund the Group's operational requirements.

At year end, 96% of the Group's cash and bank balance was held with local banks in the UAE.

DANA GAS PJSC
Report of the Directors

Business Update

In line with its outlined strategy, the Dana Gas Group continues to maximize the value of its existing oil and gas assets and projects, while pursuing aggressive growth through a strategy of targeted acquisitions and new business development across the gas value chain. One of the Company's most notable achievements for the year was the delivery of first gas in its major joint project with Crescent Petroleum in the Kurdistan Region of Iraq in a record time of 15 months. In addition our appraisal program has created large potential for possible future gas supply and future exports to neighboring countries.

Egypt operations – Centurion Petroleum

This year was an eventful one for our Egypt operations as multiple significant discoveries were made in different areas of our operated Concessions, which significantly increased the size of Company's hydrocarbon reserves. Consequently, both production rates and asset valuations are set to be enhanced in 2009. These results serve as a testimony to the quality of our assets in the Egypt portfolio and the potential associated with it.

The most recent discovery was made in West Qantara Concession, Salma-1, which is expected to add up to 230 billion cubic feet of gas reserves. This discovery is in addition to the earlier rich gas discoveries in El Basant-1 and 2 that added 160 billion cubic feet of gas plus condensates. This accumulation is being developed on a fast track basis back to our existing facilities at El Wastani and will be commencing production during the first half of 2009.

In Egypt, Dana Gas ended 2008 with a daily production rate of 31,640 barrels of oil equivalent (boe) with total production for the year of 10.6 million barrels of oil equivalent ("MMBOE") in Egypt.

The internationally renowned U.K. based petroleum reserves certification firm, Gaffney, Cline & Associates ("GCA") have carried out an independent evaluation of Centurion's hydrocarbon reserves as at 31 December 2008. Following this review, the Company's gross proved reserves (1P) as at 31 December 2008 are estimated to be 55.6 MMBOE (31 December 2007: 45.8 MMBOE). The gross proved and probable reserves (2P) as at 31 December 2008 are estimated to be 94.3 MMBOE (31 December 2007: 66.7 MMBOE). The gross proved, probable and possible reserves (3P) as at 31 December 2008 are estimated to be 157.7 MMBOE (31 December 2007: 86.4 MMBOE). These results on 2P reserves give a total reserves addition of 41% and a total reserves replacement ratio of 362%. An evaluation of the residual exploration potential of Centurion's Egyptian exploration assets, the West Manzala, West Qantara and Komombo Concessions, was also carried out by GCA. Their report indicated that the risked gas potential of the blocks is in the region of 3.7 trillion cubic feet (Tcf) of gas.

Kurdistan Region of Iraq (KRI) Project

In April 2007, the Group entered into important agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources, initially to develop, process and transport natural gas on a fast-track basis from the Khor Mor Gas Field (Khor Mor Project), including the extraction of LPG and condensate, in order to provide natural gas supplies to fuel domestic electric power generation plants currently under construction by third parties near the major urban centers of Erbil and Suleymania. This project is being implemented jointly with Crescent Petroleum at a total investment of USD 660 million. Further development of the gas reserves are planned to supply natural gas as feedstock and energy for local industries, specifically for the 42 square kilometer Kurdistan Gas City major industrial complex (described below) and subsequently for future exports.

Kurdistan Region of Iraq (KRI) Project (continued)

The mechanical completion of the 180 km pipeline from Khor Mor to Erbil was achieved in late September and the Early Production Facilities (EPF) was successfully installed. Commissioning of the EPF occurred in early August, with gas deliveries to the Erbil Power Station commencing on 1st October '08 via the 180 km pipeline– a record achievement of only 15 months project implementation by the joint venture team between Dana Gas and its partner Crescent Petroleum.

Kurdistan Gas City

Dana Gas in joint venture with Crescent Petroleum has been designated a 461 million square feet site for Kurdistan Gas City by the Kurdistan Regional Government (KRG) for development by Gas Cities LLC (a joint venture company between Dana Gas and Crescent Petroleum), following extensive surveys that have been completed on potential sites within the Kurdistan Region of Iraq.

The Kurdistan Gas City is planned to be major new sustainable and synergistic gas-utilisation industrial complex designed to promote private sector investment in a variety of gas-related industries to further benefit the country's citizens through mass training, job creation in the many tens of thousands and the promotion of general economic activity.

The Kurdistan Gas City is the first in a series of "Gas Cities" that are being proposed across the MENASA region by Gas Cities LLC.

UAE Gas Project

The UAE Gas Project to process and transport imported gas awaits the commencement of gas supplies, with the construction and interconnection of the Company's facilities in the UAE have long been successfully completed, The ultimate supplier of gas, NIOC, has after a delay of over 3 years completed the installation of all the main components of the required upstream facilities in Iran. Commissioning of these upstream facilities is being understaken by NIOC for completion during 2009. After completion of commissioning, NOIC shall be ready to commence the gas supplies.

Joint venture with Emarat

United Gas Transmissions Company Ltd (UGTC), a subsidiary of the Company, has implemented a joint venture project with Emarat (on a 50:50 basis) that is the largest gas pipeline in the UAE (48 inch diameter, 32 km length) with a design capacity of 1000 MMscfd to transport gas within Sharjah from Sajaa to the Hamriyah at a capital cost of USD 50 million. The construction of the pipeline was completed in April 2008. The pipeline capacity is to be utilized by 3 users; SEWA, FEWA and CNGCL under a 25 year contract.

Egypt Gulf of Suez – Gas Liquids (LPG) Plant

The Company, through Danagaz Bahrain, is leading a project to build, own and operate the Liquids Extraction Plant in Egypt in partnership with Egyptian National Gas Company (EGAS) and the Arabian Petroleum Investment Corporation (APICORP). The formation of a joint venture company in Egypt and the acquisition of the land for the Plant have been completed. The contract award for the LPG Plant is planned during the second quarter of 2009, with construction hereafter to take up to 18 months.

DANA GAS PJSC
Report of the Directors

Sharjah Western Offshore Concession

In March 2008, Dana Gas was awarded a 25 year concession by the Government of Sharjah for the exploration and development of the Western Offshore concession in Sharjah, UAE. The concession award marks Dana Gas' entry into the prestigious and exclusive GCC exploration and production sector, and will also be the first offshore upstream asset for the Company in the Middle East.

The concession agreement covers a total area of over 1,000 square kilometers including the Zora Gas Field, which has established gas reserves and a ready market. The Company has begun implementation of this important project, which includes upstream development as well as transportation of the produced gas and petroleum liquids via a 25km offshore pipeline, which will add significant production and revenues to Dana Gas's expanding diversified portfolio.

Directors

The Directors who served during the period were:

H.H. Sheikh Ahmed Bin Sultan Al –Qasmi, Honorary Chairman
Mr. Hamid Dhiya Jafar, Executive Chairman
Dr. Adel Khalid Al-Sabeeh, Deputy Chairman
H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al-Qasimi
Mr. Abdulaziz Hamad Aljomaih
Mr. Abdulla Nasser Huwaileel Al-Mansoori
Mr. Adib Abdullah Al-Zamil
Mr. Ahmed Rashid Al-Arbeed
Mr. Khalid Abdul Rahman Saleh Al-Rajhi
Mr. Khalid Bin Nasser Abdulla Al-Misnad (resigned on 23 January 2008)
Mr. Majid Hamid Jafar
Mr. Rashad Mohammed Al-Zubair
Mr. Said Arrata
Dr. Tawfeeq Abdulrahman Almoayed
Mr. Varoujan Nerguizian
Mr. Ziad Abdulla Ibrahim Galadari
Mr. Rashid Saif Al-Jarwan (appointed on January 30, 2008)

Auditors

The financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board of Directors

Director
25 March 2009

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC

Report on the financial statements

We have audited the accompanying financial statements of Dana Gas PJSC and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of Dana Gas PJSC and the UAE Commercial Companies Law of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the Articles of Association of Dana Gas PJSC; proper books of account have been kept by Dana Gas PJSC, an inventory was duly carried out and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the Articles of Association of Dana Gas PJSC have occurred during the year which would have had a material effect on the business of Dana Gas PJSC or on its financial position.

Ernst & Young

Signed by
Edward B. Quinlan (Registration No. 93)
For Ernst & Young

Sharjah, United Arab Emirates
25 March 2009

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2008

	Notes	2008 USD mm	2008 AED mm	2007 USD mm	2007 AED mm
Revenue		**311**	**1,139**	283	1,036
Royalties		**(130)**	**(477)**	(118)	(431)
Net revenue	5	**181**	**662**	165	605
Cost of sales		**(28)**	**(103)**	(16)	(57)
Depreciation and depletion	10	**(82)**	**(301)**	(66)	(241)
Gross profit		**71**	**258**	83	307
Investment and finance income - net	6	**40**	**148**	10	35
Other income	7	**27**	**98**	1	5
Gain from change in fair value of investment property	13	**33**	**121**	56	205
General and administration expenses		**(22)**	**(82)**	(22)	(81)
Finance costs	8	**(72)**	**(263)**	(42)	(153)
Exploration expenses	10	**(6)**	**(22)**	(10)	(37)
PROFIT BEFORE TAX FOR THE YEAR		**71**	**258**	76	281
Income tax expense		**(38)**	**(138)**	(46)	(170)
PROFIT FOR THE YEAR		**33**	**120**	30	111
Basic and diluted earnings per share (USD/AED per share)	9	**0.005**	**0.020**	0.005	0.019

CONSOLIDATED BALANCE SHEET

At 31 December 2008

		2008		2007	
	Notes	*USD mm*	*AED mm*	*USD mm*	*AED mm*
ASSETS					
Non-current assets					
Property, plant and equipment	10	**817**	**2,996**	641	2,353
Intangible assets	12	**1,604**	**5,878**	1,544	5,660
Investment property	13	**110**	**403**	77	282
		2,531	**9,277**	2,262	8,295
Current assets					
Inventories	14	**58**	**211**	40	145
Account receivable and prepayments	15	**132**	**484**	78	286
Financial assets at fair value through profit or loss	16	**8**	**28**	-	-
Cash and cash equivalents	17	**217**	**798**	541	1,983
Assets held for sale	18	-	-	39	142
		415	**1,521**	698	2,556
TOTAL ASSETS		**2,946**	**10,798**	2,960	10,851
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	19	**1,637**	**6,000**	1,637	6,000
Statutory reserve		**28**	**104**	25	92
Legal reserve		**28**	**104**	25	92
Retained earnings		**225**	**819**	200	732
Share-based payment reserve	25	**4**	**15**	-	-
Convertible bonds- equity component	20	**48**	**176**	52	191
Attributable to shareholders of the Company		**1,970**	**7,218**	1,939	7,107
Minority interest in equity		**1**	**3**	-	-
Total equity		**1,971**	**7,221**	1,939	7,107
LIABILITIES					
Non-current liabilities					
Convertible bonds	20	**856**	**3,138**	916	3,358
Finance lease obligations		-	-	-	1
Provisions	21	**10**	**35**	5	18
		866	**3,173**	921	3,377
Current liabilities					
Trade payables and accruals	22	**109**	**403**	97	357
Short term portion of finance lease obligations		-	**1**	1	2
Liabilities directly associated with assets held for sale	18	-	-	2	8
		109	**404**	100	367
Total liabilities		**975**	**3,577**	1,021	3,744
TOTAL EQUITY AND LIABILITIES		**2,946**	**10,798**	2,960	10,851

Director
25 March 2009

Director
25 March 2009

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 USD mm	2008 AED mm	2007 USD mm	2007 AED mm
OPERATING ACTIVITIES					
Profit for the year before appropriations and tax		**71**	**258**	76	281
Adjustments for:					
Other income		**(12)**	**(44)**	-	-
Investment and finance income	6	**(40)**	**(148)**	(10)	(35)
Depreciation and depletion	10	**82**	**301**	66	241
Gain from change in fair value of investment property	13	**(33)**	**(121)**	(56)	(205)
Finance costs	8	**72**	**263**	42	153
Board compensation		**(2)**	**(9)**	(2)	(9)
		138	**500**	116	426
Changes in working capital:					
Accounts receivable and prepayments		**(53)**	**(194)**	(18)	(66)
Inventories		**(18)**	**(66)**	-	1
Trade payables and accruals		**4**	**16**	41	146
Net cash generated from operating activities		**71**	**256**	139	507
Income tax paid		**(38)**	**(138)**	(46)	(170)
Net cash from operating activities		**33**	**118**	93	337
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(233)**	**(854)**	(152)	(556)
Expenditure on intangible	12	**(60)**	**(218)**	(22)	(82)
Investment in deposits with more than three months' maturity		-	-	28	103
Financial asset at fair value through profit or loss account	16	**(9)**	**(31)**	-	-
Investment and finance income	6	**11**	**41**	10	35
Proceeds from sale of assets held for sale		**46**	**170**	-	-
Acquisition of subsidiaries	11	-	-	(1,129)	(4,138)
Net cash used in investing activities		**(245)**	**(892)**	(1,265)	(4,638)
FINANCING ACTIVITIES					
Proceeds from issue of convertible bonds		-	-	966	3,541
Repurchase of convertible bonds	20	**(38)**	**(140)**	-	-
Proceeds from bridge finance		-	-	470	1,723
Repayment of long term debt		-	-	(13)	(46)
Repayment of bridge finance		-	-	(470)	(1,723)
Finance lease obligations settled		-	-	(1)	(2)
Finance costs		**(74)**	**(271)**	(42)	(153)
Net cash from financing activities		**(112)**	**(411)**	910	3,340

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2008

	Notes	2008 USD mm	2008 AED mm	2007 USD mm	2007 AED mm
DECREASE IN CASH AND CASH EQUIVALENTS		**(324)**	**(1,185)**	(262)	(961)
Cash inflow on acquisition of subsidiaries	11	-	-	57	208
Cash and cash equivalents at the beginning of the year		**541**	**1,983**	746	2,736
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	**217**	**798**	541	1,983

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
At 31 December 2008

	Attributable to shareholders of the Company															
	Share capital		*Statutory reserves*		*Legal reserves*		*Retained earnings*		*Share-based payment reserve*		*Convertible bonds-equity component*		*Minority interest*		*Total*	
	USD mm	*AED mm*	*USD mm*	*AED mm*	*USD mm*	*AED mm*	*USD mm*	*AED mm*	*USD mm*	*AED mm*	*USD mm*	*AED mm*	*USD mm*	*AED mm*	*USD mm*	*AED mm*
At 31 December 2006	1,637	6,000	22	81	22	81	178	652	-	-	-	-	-	-	1,859	6,814
Board compensation for 2006	-	-	-	-	-	-	(2)	(9)	-	-	-	-	-	-	(2)	(9)
Total expense for the year recognised directly in equity	-	-	-	-	-	-	(2)	(9)	-	-	-	-	-	-	(2)	(9)
Profit for the year	-	-	-	-	-	-	30	111	-	-	-	-	-	-	30	111
Total income and expense for the year	-	-	-	-	-	-	28	102	-	-	-	-	-	-	28	102
Equity component of convertible bonds issued	-	-	-	-	-	-	-	-	-	-	52	191	-	-	52	191
Transfer to reserves	-	-	3	11	3	11	(6)	(22)	-	-	-	-	-	-	-	-
At 31 December 2007	1,637	6,000	25	92	25	92	200	732	-	-	52	191	-	-	1,939	7,107
Board compensation for 2007	-	-	-	-	-	-	(2)	(9)	-	-	-	-	-	-	(2)	(9)
Total expense for the year recognised directly in equity	-	-	-	-	-	-	(2)	(9)	-	-	-	-	-	-	(2)	(9)
Profit for the year	-	-	-	-	-	-	33	120	-	-	-	-	-	-	33	120
Total income and expense for the year	-	-	-	-	-	-	31	111	-	-	-	-	-	-	31	111
Repurchase of convertible bonds	-	-	-	-	-	-	-	-	-	-	(4)	(15)	-	-	(4)	(15)
Transfer to reserves	-	-	3	12	3	12	(6)	(24)	-	-	-	-	-	-	-	-
Transfer from trade payables and accruals (refer note 25)	-	-	-	-	-	-	-	-	4	15	-	-	-	-	4	15
Minority interest arising on business combination	-	-	-	-	-	-	-	-	-	-	-	-	1	3	1	3
At 31 December 2008	**1,637**	**6,000**	**28**	**104**	**28**	**104**	**225**	**819**	**4**	**15**	**48**	**176**	**1**	**3**	**1,971**	**7,221**

In accordance with the Articles of Association of the Company and Articles 192 & 193 of the UAE Commercial Companies Law, 10% of the Group profit for the year is allocated to a legal reserve and a further 10% of the Group profit has been allocated to the statutory reserve.

The attached explanatory notes 1 to 28 form part of these consolidated financial statements.

1 ACTIVITIES

Dana Gas PJSC ("Dana Gas" or the "Company") was incorporated in the Emirate of Sharjah, United Arab Emirates as a Public Joint Stock Company on 20 November 2005 pursuant to incorporation decree number 429/2005 issued by the Ministry of Economy. Dana Gas shares are listed on the Abu Dhabi Securities Exchange (ADX).

The Company and its Subsidiaries constitute the Group ("the Group"). The Group is engaged in the business of exploration, production, ownership, transportation, processing, distribution, marketing and sale of natural gas and petroleum related products, including the development of gas related projects and services.

The Company's registered head office is P. O. Box 2011, Sharjah, United Arab Emirates with offices in Al-Khobar, Calgary, London, Kurdistan region of Iraq, Bahrain and Cairo.

Principal subsidiaries and jointly controlled entities of the group at 31 December 2008 and the group percentage of ordinary share capital or joint venture interest are set out below:

Subsidiaries	**%**	**Country of incorporation**	**Principal activities**
Dana Gas LNG Ventures	100	British Virgin Island	Oil and Gas exploration & production
Centurion Energy International Inc	100	Canada	Oil and Gas exploration & production
Sajaa Gas Private Limited Company ("SajGas")	100	Emirate of Sharjah, UAE	Gas Sweetening
United Gas Transmissions Company Limited ("UGTC")	100	Emirate of Sharjah, UAE	Gas Transmission
Danagaz (Bahrain) WLL	66	Bahrain	Gas Processing

Joint Ventures	**%**	**Country of operations**	**Principal activities**
Kurdistan Region of Iraq	50	Kurdistan Region of Iraq	Oil and Gas exploration & production
UGTC / Emarat	50	Emirate of Sharjah	Gas Transmission
CNGCL	35	Emirate of Sharjah	Gas Marketing
EBGDCO	26.4	Egypt	Gas Processing

These Group consolidated financial statements were authorised for issue by the Board of directors on 25 March 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for investment properties and certain financial assets and liabilities that have been measured at fair value. The consolidated financial statements have been prepared in United States Dollars (USD), which is the Group's functional currency, and all values are rounded to the nearest million except where otherwise indicated. The United Arab Emirates Dirhams (AED) amounts have been presented solely for the convenience of readers of the consolidated financial statements. AED amounts have been translated at the rate of AED 3.6655 to USD 1.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance

The consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS) and include International Financial Reporting Interpretation Committee (IFRIC) interpretations.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(a) Interpretations effective in 2008

IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The adoption of this Interpretation had no impact on the financial position or performance of the Group.

IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions
This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this Interpretation did not have any effect on the financial position or performance of the Group.

(b) Interpretations effective in 2008 but not relevant

The following interpretations to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- IFRIC 12, 'Service concession arrangements'; and
- IFRIC 13, 'Customer loyalty programmes'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009) have removed the option of immediately recognising as an expense borrowing costs that relates to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This will have no impact on the Group's financial statements as its accounting policy in this regard requires capitalisation of borrowing costs.

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance (continued)

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009) is required to be applied to periods beginning on or after 1 January 2009. This amendments clarifies the definition of non-vesting conditions and prescribes accounting treatment of an award that is cancelled because a non-vesting condition is not satisfied. This amendment is not expected to have a significant impact on the Group's financial statements.

- IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- IFRS 8 'Operating Segments' introduces the management approach to segment reporting. IFRS 8, which become mandatory for the Group's 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and allocated resources to them. This revision will have no impact on the disclosure currently provided in the financial statement.

- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation introduces disclosure and allows limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The revised standard is applicable for periods beginning on or after 1 January 2009. This revision will have no impact on the Group's financial statements.

Consolidation

(a) Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de- consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

(b) Transactions and minority interests
The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Joint ventures
The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(d) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in the business of exploration, production, ownership, transportation, processing, distribution, marketing and sale of natural gas and petroleum related products, including the development of gas related projects and services (business segment), or in performing such activities within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

Foreign currencies

Transactions in foreign currencies are recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transactions. Non monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign group companies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign group companies (continued)

The balance sheets of subsidiaries and joint ventures with functional currencies other than US Dollars are translated using the closing rate method, whereby assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. The income statements of such subsidiaries and joint ventures are translated at average exchange rates for the year. Any goodwill arising on the acquisition of such operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the operation and translated at the closing rate. Exchange differences arising on the retranslation of net assets are taken directly to equity. On the disposal of such entities, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is computed on a straight line basis over the estimated useful lives of other assets as follows:

Oil and gas properties	unit-of-production
Buildings	25 years
Gas plant	15 years
Pipelines & related facilities	25 years
<u>Other assets:</u>	
Computers	3 years
Furniture and fixtures	3 years – 5 years
Vehicles	3 years – 5 years
Leasehold improvements	over the period of lease

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (cost)/income' in the income statement.

Capital work-in-progress is stated at cost. On commissioning, capital work-in-progress is transferred to property, plant and equipment and depreciated in accordance with Group policies.

Oil and gas exploration assets

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalised as an intangible asset until the drilling of the well is complete and the results have been evaluated. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to a technical commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proven reserves of oil and natural gas are determined and development is sanctioned, capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and gas exploration assets (continued)

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortisation is charged during the exploration or evaluation phase.

(a) Depreciation / amortisation

Oil and gas properties intangible assets are depreciated or amortised using the unit-of-production method. Unit-of-production rates are bases on proved reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods.

(b) Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less cost to sell and their value in use. For the purpose of assessing impairment, the exploration and evaluation assts subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

Intangible assets

Intangible assets acquired as part of a business combination relating to oil and gas properties are recognised separately from goodwill if the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as a change in accounting estimate.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. When development in respect of the oil and gas properties is internally approved, the related amount is transferred from intangible assets to property, plant and equipment and depleted in accordance with the Group's policy. If no future activity is planned, the remaining balance is written off.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Asset decommissioning obligation

Where required under existing production sharing contracts, the Group records the estimated costs of future abandonment and site restoration of oil and gas properties, which are added to the carrying value of the oil and gas properties. The abandonment and site restoration costs initially recorded are depleted using the unit-of-production method based on proven oil and gas reserves. Subsequent revisions to abandonment and site restoration costs are considered as a change in estimates and are accounted for on a prospective basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assumptions of the time value of money and the risks specific to the asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value;
(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
(c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or is designated as such at original recognition.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables'.

(c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gain or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'investment and finance income' in the period in which they arise. Dividends income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payment is established.

The fair value of quoted investments is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These includes the use of recent arm's length transactions, referent to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Investment properties

Investment properties are initially measured at cost, including transactions costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the consolidated income statement in the period in which it is accrued.

Subsequently, investment properties are measured at fair value. Fair values are assessed at the balance sheet date. Any gain or loss arising from a change in the fair values of investment properties is included in the consolidated income statement

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of spares and consumables are determined on a weighted average basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Account receivable and prepayments

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

General
Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Decommissioning liability
Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Employees' end of service benefits
The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Income Taxes

In Egypt, the government receives production in lieu of income tax. The Group records this production as a current income tax expense.

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as finance cost in the consolidated income statement in the period in which they are incurred.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

Profit-bearing loans and borrowings

All profit-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument.

After initial recognition, profit-bearing loans and borrowings are subsequently measured at amortised cost using the effective profit rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

Convertible bonds that can be converted into share capital at the option of the holder, where the number of shares is fixed based on the reference price set in nine months time from the date of issue, are accounted for as compound financial instruments. The equity component of the convertible bonds is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Share based payment transactions

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for either equity instruments ("equity settled transactions") or share appreciation rights, which can only be settled in cash ("cash-settled transactions").

Equity-settled transaction
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Cash-settled transactions
The cost of cash-settled transactions is measured initially at fair value, which is determined by an external valuer using an appropriate pricing model. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Net revenue is measured at the fair value of the consideration received, excluding royalties, discounts, rebates, and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sale of hydrocarbons
Revenue from sale of hydrocarbons is recognised when the significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction can be measured reliably.

Finance income
Revenue from surplus funds invested with financial institutions is recognised as the revenue accrues.

Fair values
The fair value of profit-bearing items is estimated based on discounted cash flows using profit rates for items with similar terms and risk characteristics.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

- Impairment of goodwill: the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was USD 308 million (2007: USD 308 million).

- Recoverable value of intangible oil and gas assets: the group determines at each balance sheet date whether there is any evidence of impairment in the carrying value of its intangible oil and gas assets. This requires management to estimate the recoverable value of its intangible oil and gas assets by reference to quoted market values, similar arms length transactions involving these assets etc. The carrying amount of intangibles assets at 31 December 2008 was USD 1,296 million (2007: USD 1,236 million).

- The Group carries its investment properties at fair value, with changes in fair values being recognised in the income statement. The Group engaged a firm of qualified independent property consultants to determine fair value as at 31 December 2008.

4 SEGMENTAL INFORMATION

Primary segment information
The Group's primary operations, based on the location of assets, are organised on a worldwide basis into four geographical segments: United Arab Emirates, Egypt, Kurdistan Region of Iraq and others. The accounting policies of the segments are the same as those described in note 2 above. The Group evaluates the performance of its segments and allocates resources to them based on this evaluation.

Year ended 31 December 2008

	United Arab Emirates USD mm	*Egypt USD mm*	*Kurdistan Region of Iraq USD mm*	*Rest of the World USD mm*	*Total USD mm*
Revenue					
External sales net of royalties	3	170	8	-	181
Total revenue net of royalties	3	170	8	-	181
Results					
Profit before tax, finance cost, investment and finance income					103
Finance costs					(72)
Investment and finance income					40
Profit before income tax					71
Income tax expense					(38)
Profit for the year					33
Segment assets at 31 December 2008	1,447	1,116	291	92	2,946
Segment liabilities at 31 December 2008	905	45	25	-	975

4 SEGMENTAL INFORMATION (continued)

	United Arab Emirates USD mm	*Egypt USD mm*	*Kurdistan Region of Iraq USD mm*	*Rest of the World USD mm*	*Total USD mm*
Other segment information					
Capital expenditure for the year:					
Property, plant and equipment	**18**	**37**	**209**	**-**	**264**
Intangible assets	**1**	**59**	-	-	**60**
Charges:					
Depletion and depreciation	**(1)**	**(81)**	-	-	**(82)**
Exploration cost	-	**(6)**	-	-	**(6)**
Gain from change in fair value of investment property	**33**	-	-	-	**33**

Secondary segment information
The Group's secondary segment reporting format is business. For operational and management reporting purposes, the Group is organised in one major business segment of ownership, transportation, processing, distribution, marketing and sale of natural gas and petroleum related products, including the development of gas related projects and services.

Year ended 31 December 2007

	United Arab Emirates USD mm	*Egypt USD mm*	*Kurdistan Region of Iraq USD mm*	*Rest of the World USD mm*	*Total USD mm*
Revenue					
External sales net of royalties	1	164	-	-	165
Total revenue net of royalties	1	164	-	-	165
Results					
Profit before tax, finance cost, investment and finance income					108
Finance costs					(42)
Investment and finance income					10
Profit before income tax					76
Income tax expense					(46)
Profit for the year					30
Segment assets at 31 December 2007	1,682	1,122	64	92	2,960
Segment liabilities at 31 December 2007	946	63	12	-	1,021

4 SEGMENTAL INFORMATION (continued)

	United Arab Emirates USD mm	*Egypt USD mm*	*Kurdistan Region of Iraq USD mm*	*Rest of the World USD mm*	*Total USD mm*
Other segment information					
Capital expenditure for the year:					
Property, plant and equipment	16	82	64	-	162
Intangible assets	-	22	-	-	22
Charges:					
Depletion and depreciation	-	(66)	-	-	(66)
Exploration cost	-	(10)	-	-	(10)
Gain from change in fair value of investment property	56	-	-	-	56

5 NET REVENUE

	***2008* USD mm**	*2007 USD mm*
Gross sales	**308**	282
Less: Royalties	**(130)**	(118)
Net sales	**178**	164
Tariff fee	**3**	1
Net revenue	**181**	165

6 INVESTMENT AND FINANCE INCOME

Profit share from bank deposits	**11**	10
Gain on derecognition of Sukuk liability (note 20)	**30**	-
Fair value losses on financial assets at fair value through profit or loss (note 16)	**(1)**	-
	40	10

7 OTHER INCOME

Gain on disposal of interest in West Gharib (note 18)	**12**	-
Others	**15**	1
	27	1

8 FINANCE COSTS

Finance cost on convertible bonds (note 20)	**88**	13
Finance cost on bridge facility	**-**	23
Arrangement fee and other charges	**-**	6
Finance cost capitalised	**(16)**	-
	72	42

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The information necessary to calculate basic and diluted earnings per share is as follows:

	2008	*2007*
Earnings:		
Profit for the year/ period – USD mm	**33**	30
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	**6,000**	6,000
EPS (Basic) - USD:	**0.005**	0.005

As disclosed in Note 20, on 7 July 2008, conversion rate for convertible sukuk was determined and was fixed at 17,343.3 shares for every USD 10,000 Sukuk Certificate. As at 31 December the conversion had an anti-dilutive effect on the EPS of the company.

EPS (Diluted) - USD:	**0.005**	0.005

10 PROPERTY, PLANT AND EQUIPMENT

	Freehold land USD mm	*Building USD mm*	*Oil and gas properties USD mm*	*Plant and equipment USD mm*	*Other assets USD mm*	*Pipeline & other facilities USD mm*	*Capital work-in-progress USD mm*	*Total USD mm*
Cost:								
At 1 January 2008	13	1	326	76	8	-	279	703
Additions	-	-	29	4	6	-	225	264
Transfer to fixed assets	-	-	-	-	-	25	(25)	-
Dry hole costs written-off	-	-	(6)	-	-	-	-	(6)
At 31 December 2008	13	1	349	80	14	25	479	961
Depreciation/Depletion:								
At 1 January 2008	-	-	56	5	1	-	-	62
Depreciation/depletion charge for the year	-	-	73	7	1	1	-	82
At 31 December 2008	-	-	129	12	2	1	-	144
Net carrying amount:								
At 31 December 2008	13	1	220	68	12	24	479	817

Capital Work in Progress comprises:

	USD mm
SajGas Plant and facilities	116
UGTC Pipeline & Platform	88
Kurdistan Region of Iraq Project	273
Others	2
	479

10 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land USD mm	*Building USD mm*	*Oil and gas properties USD mm*	*Plant and equipment USD mm*	*Other assets USD mm*	*Capital work-in-progress USD mm*	*Total USD mm*
Cost:							
At 1 January 2007	34	1	-	-	1	199	235
Acquired in business combination	-	-	281	74	1	-	356
Additions	-	-	74	2	6	80	162
Dry hole costs written-off	-	-	(10)	-	-	-	(10)
Transfer to investment property	(21)	-	-	-	-	-	(21)
Transfer to assets held for sale	-	-	(19)	-	-	-	(19)
At 31 December 2007	13	1	326	76	8	279	703
Depreciation/Depletion:							
At 1 January 2007	-	-	-	-	-	-	-
Depreciation/depletion charge for the year	-	-	60	5	1	-	66
Transfer to assets held for sale	-	-	(4)	-	-	-	(4)
At 31 December 2007	-	-	56	5	1	-	62
Net carrying amount:							
At 31 December 2007	13	1	270	71	7	279	641

Capital Work in Progress comprises:

	USD mm
SajGas Plant and facilities	**106**
UGTC Pipeline & Platform	**88**
UGTC/Emarat Pipeline	**21**
Kurdistan Region of Iraq Project	**64**
	279

11 BUSINESS COMBINATIONS

Acquisition of Centurion Energy International Inc

On 10 January 2007, Dana Gas PJSC completed a Plan of Arrangement ("Plan") with Centurion Energy International Inc. ("Centurion"). Under the terms of this Plan, Dana Gas acquired all of the issued and outstanding common shares of Centurion for CAD 12.00 in cash per common share for an aggregate acquisition cost of CAD 1.1 billion (approximately USD 1.1 billion) and retired debt of USD 127 million. The Plan was approved by the Centurion common share holders during a special meeting on 8 January 2007 and subsequently by the Queen's bench of Alberta Court. The results of Centurion have been consolidated from 10 January 2007. The Centurion acquisition was funded from internal cash and an Islamic Shariah compliant facility provided by Citibank of USD 470 million, which was fully repaid on 31 October 2007 out of the proceeds of the convertible sukuk.

The fair value of the identifiable assets and liabilities as at the date of the acquisition was:

	Fair value recognised on acquisition USD mm	*Carrying value USD mm*
Property, plant and equipment	**356**	189
Intangible assets	**357**	24
Other non-current assets	**-**	2
Current assets	**163**	163
Total Assets	**876**	378
Non-current liabilities	**(31)**	(145)
Current liabilities	**(42)**	(42)
Value of net assets	**803**	191
Goodwill arising on acquisition	**318**	-
Consideration paid	**1,121**	

Cash flow on acquisition:	*USD mm*
Net cash acquired with the subsidiary	**57**
Cash paid	**(1,121)**
Net cash outflow	**(1,064)**

The total consideration of USD 1,121 million represents a cash settlement of USD 973 million, acquisition and related expenses of USD 21 million and debt repayment of USD 127 million.

Centurion is an independent oil and gas exploration and production company operating principally in the Egyptian Nile Delta whose common shares had previously been listed on the Toronto Stock Exchange and the London AIM. Centurion now forms the Upstream (Exploration and Production) Division of the Dana Gas group. Centurion has a number of concessions and development leases in Egypt:

- El Wastani Development Lease – These development leases are held with a 100% working interest and represent approximately 80.7% of current production. El Wastani production includes both gas and associated gas liquids. These leases have 13,017 acres of land included within their boundaries and are located in the Nile Delta of Egypt.

- South El Manzala Development Leases – These development leases are held with a 100% working interest and represent approximately 1.2% of current production. South El Manzala has only gas production. These development leases have 16,055 acres of land included within their boundaries and are located in the Nile Delta of Egypt.

11 BUSINESS COMBINATIONS (continued)

Acquisition of Centurion Energy International Inc (continued)

- West El Manzala Exploration Concession – Centurion holds a 100% working interest in this Concession, which includes 476,216 acres of exploration land. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt. To date, two development leases have been created from this exploration concession and produce approximately 17.8% of current volumes and produce both natural gas and associated liquids. The company has applied for a third development lease of 7 576 acres following the late 2008 discovery of El Basant.

- West El Qantara Exploration Concession – Centurion holds a 100% working interest in this Concession, which includes 319,618 acres of exploration land. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt.

- Kom Ombo Exploration Concession – Centurion holds a 50% working interest in this Concession, which includes 5,654,727 acres of exploration land. The Farm-out Agreement was completed in 2007 which gave a 50% working interest to the Kuwait International Oil and Environmental Co. (KIOEC). Centurion remains the Operator of the Concession. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the southern desert of Egypt. To date one development lease has been created from this exploration concession and produces approximately 0.3% of current volumes and produces only oil.

In addition to the above concessions and leases in Egypt, Centurion also has the following lease:

- Block 4 Sao Tome/Nigeria – Centurion holds a 9.5% working interest in the exploration block. The block is located off shore in the Nigeria/Sao Tome Joint Development Zone. The block has 15,876 acres (net share) of land in its boundaries.

- Tunisia Exploration Lease – Centurion has retained the exploration rights in relation to up to a 50 percent working interest in deeper prospective horizons that underlie upper producing horizons. The deeper prospects to which Centurion has retained the rights potentially contain significant gas and petroleum liquid resources. This is based on the presence of a large neighboring structure involving the Triassic reservoir, which is one of the main producing horizons in Algeria and Tunisia.

Centurion Projects

Kom Ombo Farm-out
On 17 April 2007, the Company completed a Farm-out Agreement with Kuwait International Oil and Environmental Co. (KIOEC) related to the Kom Ombo concession. Under the terms of the farmout, KIOEC has received a 50% working interest in the Kom Ombo concession. In consideration for the working interest, KIOEC will fund 100 percent of the first USD 4.4 million of work program expenditures in the concession. Thereafter, KIOEC and the Group will share future expenditures equally.

Luzi Development Lease
On 11 April 2007, the Company was granted formal approval of its first Plan of Development Lease in the West El Manzala Concession (Luzi Development Lease). As a result of this formal granting, the Company will be required to make the first payment under the terms of the CTIP acquisition agreement, totaling USD 12.5 million. The first of the two installments were paid in 2007 and the second installment was paid on 3 January 2008.

Acquisition of Danagaz (Bahrain)
The Company entered into a Heads of Agreement on 30 September 2006 with the majority shareholder (acting for itself and other shareholders) to acquire a controlling interest (66% of the shares) in a Bahrain registered company, named Danagaz (Bahrain) subject to the fulfillment of certain conditions. It subsequently entered into a Share Purchase Agreement with all the shareholders of Danagaz Bahrain on 29 April 2007 and following fulfillment of conditions precedent to the completion of the acquisition the Company paid the initial provisional purchase price of USD 7 million in December 2007 and retained 10%, being USD 700,000 for potential claims.

11 BUSINESS COMBINATIONS (continued)

Acquisition of Danagaz (Bahrain) (continued)

Danagaz (Bahrain) is developing a project that involves the installation of a plant in Egypt to extract LPG from the existing gas network. Danagaz, in partnership with Egyptian Natural Gas Holding Company and Arab Petroleum Investments Corporation (APICORP), will build, own, and operate such plant through an Egyptian incorporated Company named Egyptian Bahraini Gas Derivative Company (EBGDCO). Danagaz will own 40% of EBGDCO, a further 40% will be held by the Egyptian Natural Gas Holding Company and the remaining 20% by APICORP. The project involves the engineering, fabrication, installation and operation of a high-efficiency LPG extraction plant on the western shore of the Gulf of Suez. The key project agreements (gas supply and product offtake) and the land and sea berth arrangements have already been executed. The estimated project cost is around USD 72 million and it is intended to arrange limited-recourse financing for 65% of the project costs. The requisite documentation and implementation of the project to Financial Close has already commenced with the contract award for the LPG Plant planned in second quarter of 2009, with construction hereafter to take up to 18 months.

12 INTANGIBLE ASSETS

	Oil and gas interests USD mm	*Purchase, transmission, sweetening and sale rights USD mm*	*Gas processing rights USD mm*	*Development Cost USD mm*	*Goodwill USD mm*	*Total USD mm*
At 1 January 2007	-	857	-	-	-	857
Acquisition of subsidiaries	357	-	7	-	318	682
Additions	22	-	-	-	-	22
Transfer to assets held for sale	(7)	-	-	-	(10)	(17)
At 31 December 2007	372	857	7	-	308	1,544
At 1 January 2008	372	857	7	-	308	1,544
Additions	59	-	-	1	-	60
At 31 December 2008	**431**	**857**	**7**	**1**	**308**	**1,604**

Intangible assets relating to Oil and gas interests have been explained in note 11. Additions of USD 59 million during the year relate to exploratory and evaluation expenses incurred, which qualify for capitalisation under IFRS 6 - Exploration for and evaluation of mineral resources.

Intangible assets include USD 857 million which represent the fair value of the rights for the purchase, transmission, sweetening and sale of gas and related products acquired by the Company through its shareholdings in SajGas, UGTC and CNGCL. The fair value of the rights acquired was determined by reference to valuation exercises undertaken by professionally qualified independent third parties based on the expected future cash flows arising from the underlying contractual relationships. The intangible assets will be amortised over 25 years from the date of commencement of commercial activity in accordance with the terms of the contracts to which they relate. Commercial activity has not yet commenced. Commissioning of these upstream facilities is currently in progress for the commencement of gas supplies upon completion.

12 INTANGIBLE ASSETS (continued)

Impairment testing of goodwill

Goodwill relates to the acquisition in January 2007 of Centurion (Note 11) which enabled Dana Gas to acquire the upstream business qualification and therefore the rights to develop the gas fields in the Kurdistan region of Iraq. The recoverable amount of the above cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management upto a 20 year period or the economic limit of the producing field. The pre-tax discount rate applied to cash flow projections is 10% (2007: 10%). Cash flows are generated using forecasted production, capital and operating cost data over the expected life of each accumulation.

Impairment testing of intangibles

In accordance with the IAS 36 requirement in respect of intangible assets not yet available for use, management has undertaken an impairment review of the intangible assets pertaining to Purchase, transmission, sweetening and sale rights. Management has reviewed the progress on the construction of the required facilities by the ultimate gas supplier and the various inputs into the original valuation model. Management believes that construction is now complete with commissioning also being undertaken by NIOC and that the inputs into the original valuation model have not significantly changed.

Key assumptions used in value in use calculations

The calculation of value in use for the above cash generating unit is most sensitive to the following assumptions:
• Financial returns;
• Discount rates:
• Oil prices; and
• Reserve volumes and production profiles;

Financial returns: estimates are based on the unit achieving returns on existing investments (comprising both those that are currently cash flowing and those which are in exploration and development stage and which may therefore be consuming cash) at least in line with current forecast income and cost budgets during the planning period;

Discount rates – Discount rates reflect management's estimate of the risks specific to the above unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Oil prices: management has used an oil price assumption based on the forward curve prevailing at the end of 2008 for the impairment testing of its individual oil & gas investments.

Reserve volumes and production profiles: management has used its internally developed economic models of reserves and production as a basis of calculating value in use.

Sensitivity to changes in assumptions
With regard to the assessment of value in use of the above cash generating unit, management believes that no reasonable possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount after giving due consideration to the macro-economic outlook for the oil & gas industry.

13 INVESTMENT PROPERTY

The movement in investment property during the year is as follows:

	2008 ***USD mm***	*2007* *USD mm*
Opening balance	**77**	-
Transferred from property, plant and equipment (note 10)	-	21
Change in fair value of investment property	**33**	56
Balance at 31 December	**110**	77

13 INVESTMENT PROPERTY (continued)

Investment property consists of freehold land transferred from property, plant and equipment. This freehold land is industrial land owned by SajGas, a subsidiary, in the Sajaa area of the Emirate of Sharjah, United Arab Emirates. This transfer has been effected as the Group now considers a portion of land to be surplus to their operational requirements and will be used for earning rentals or held for capital appreciation.

Investment properties are stated at fair value which has been determined based on a valuation performed by a firm of qualified independent property consultants, with reference to comparable market transactions. This valuation resulted in an increase in the fair value by USD 33 million (2007: USD 56 million) which was credited to the consolidated income statement.

14 INVENTORIES

	2008 ***USD mm***	*2007* *USD mm*
Spares and consumables	**58**	40

15 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2008 ***USD mm***	*2007* *USD mm*
Trade accounts receivable	**94**	56
Prepaid expenses	**1**	1
Other receivables	**37**	21
	132	78

Trade receivables are non-interest bearing and are generally on 30-60 days terms.

As at 31 December, the ageing analysis of trade receivables is as follows:

			Past due but not impaired				
	Total *USD mm*	*Neither past due nor impaired* *USD mm*	*<30 days* *USD mm*	*30-60 days* *USD mm*	*60-90 days* *USD mm*	*90-120 days* *USD mm*	*>120 days* *USD mm*
2008	**94**	**32**	**12**	**13**	**6**	**12**	**19**
2007	56	14	10	4	-	-	28

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ACCOUNT

	2008 ***USD mm***	*2007* *USD mm*
Opening balance	**-**	-
Investment during the year	**10**	-
Investment redeemed during the year	**(1)**	-
Fair value loss	**(1)**	
Balance at 31 December	**8**	-

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ACCOUNT (continued)

Changes in fair values of financial assets through profit or loss account are recorded under "investment and finance income' in the income statement. During 2008, a net loss of USD 1million was recorded based on the fund's report.

The investment is in a fund investing in regional equities.

17 CASH AND CASH EQUIVALENTS

	2008 *USD mm*	*2007* *USD mm*
Cash at bank and on hand		
- Local Banks within UAE	**24**	16
- Foreign Banks outside UAE	**10**	28
Short term deposits		
- Local Banks within UAE	**183**	497
	217	541

Cash at banks earn profit at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one week and three months, depending on the immediate cash requirements of the Group, and earn profit at the respective short-term deposit rates. The fair value of cash and short-term deposits is USD 217 million (2007: USD 541 million). The effective profit rate earned on short term deposits ranged between 2.5% to 5.25% (2007: between 3.65% and 5.15%) per annum

18 ASSETS HELD FOR SALE

On 9 January 2008, the Company entered into a binding sale and purchase agreement for the sale of its 30% working interest held in the West Gharib Concession, completion of which took place in early February 2008. The sale yielded a profit of USD 12 million and has been classified under "Other Income".

19 SHARE CAPITAL

	2008 *USD mm*	*2007* *USD mm*
Authorised:		
7,794,000,000 common shares of AED 1 each (USD 0.2728 each)		
Issued and fully paid up:		
6,000,000,000 common shares of AED 1 each (USD 0.2728 each)	1,637	1,637

On 15 December 2008 the Company's authorised share capital increased from 6,060,000,000 to 7,794,341,810 shares, an increase of 1,734,341,810 shares. This increase was approved by the Securities & Commodities Authority to cater for the conversion of the Sukuk in future by the Sukuk holders (note 20).

20 CONVERTIBLE BONDS

In October 2007, the Group issued convertible bonds in the form of Trust Certificates / Sukuk-al-Mudarabah ("the Sukuk") for a total value of USD 1 billion. The Sukuk, which is structured to conform to the principles of Islamic Shariah, was approved by the Company's shareholders at an Extraordinary General Meeting held in July 2007. The Sukuk matures in 2012 and has a fixed profit rate of 7.5% to be paid quarterly. The reference share price for the conversion, based on the terms and conditions of the Sukuk issue, was determined on 7 July 2008. The exchange ratio has been set at 17,343.4 shares for every USD 10,000 Sukuk certificate (i.e. an effective conversion price of AED 2.118 per share). Each Trust Certificate may be redeemed at the option of the holder at any time after 7 July 2008 to the maturity date. It may be converted into shares, or at the option of Dana Gas, into the equivalent sum of money based on the prevailing share price at conversion. Dana Gas may also voluntarily redeem the Trust Certificates under certain conditions.

20 CONVERTIBLE BONDS (continued)

The Sukuk is secured by way of a pledge over the shares of Dana LNG Ventures Ltd., SajGas and UGTC in accordance with the principles of Islamic Shariah.

During the year, the Group repurchased Convertible Sukuk of a nominal value of USD 80 million for USD 50 million. This resulted in extinguishment of the Sukuk liability and the Group recorded a profit of USD 30 million under 'investment and finance income' in the income statement.

The convertible bond recognised in the balance sheet is calculated as follows:

	2008 USD mm	*2007 USD mm*
Proceeds from issue of convertible bonds	-	1,000
Less: Issuance costs	-	(34)
Net proceeds from issuance of convertible bonds	-	966
Equity component on initial recognition	-	(52)
Liability component on initial recognition / As at December	**916**	914
Liability derecognised during the year	**(74)**	-
Finance cost (note 8)	**88**	15
Profit paid	**(62)**	-
	868	929
Current portion of profit classified under trade and other payable	**(12)**	(13)
Liability component at 31 December	**856**	916

21 PROVISIONS

	2008 USD mm	*2007 USD mm*
Asset decommissioning obligation	**9**	4
Employee's end of service benefits	**1**	1
	10	5

22 TRADE PAYABLES AND ACCRUALS

	2008 USD mm	*2007 USD mm*
Trade payables	**53**	42
Accrued expenses and other payables	**43**	42
Profit accrued on convertible bonds	**12**	13
Amount due to related parties	**1**	-
	109	97

23 INTEREST IN JOINT VENTURE

(a) Kurdistan Region of Iraq Project

In April 2007, the Group entered into certain agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources. Under the terms of the Strategic Alliance Protocol, the Kurdistan Regional Government, Dana Gas, and its affiliate, Crescent Petroleum will jointly review the natural gas resources in the Kurdistan Region of Iraq with a view to the optimisation, development and utilisation of those substantial resources. This initiative also includes the launch of the Kurdistan Gas City, which is a major new gas-utilisation industrial complex designed to promote private sector investment in a variety of gas-related industries, thereby creating high value gas markets, and to benefit the country's citizens through job creation, training, and the promotion of general economic activity.

In addition, the Group was appointed on a long term service contract basis to develop, process and transport natural gas from the Khor Mor Gas Field, and to also concurrently appraise the potential of the Chemchamal Gas Field for subsequent development, in order to provide natural gas supplies to fuel domestic electric power generation plants currently under construction (by others) near Erbil and Suleymania, starting in third quarter 2008, as well as subsequently to supply surplus gas to local industries and potentially for future exports to neighbouring countries..

The Khor Mor Field development involves the hook up, testing and re-completion of 6 existing wells, appraisal of the reservoir including the drilling of at least 4 additional gas wells, installation of separation facilities and an LPG extraction plant, and laying of around 180 kms of pipelines. The mechanical completion of the 180 km pipeline from Khor Mor to Erbil occurred in late September and the Early Production Facilities (EPF) was successfully installed. Commissioning of the EPF occurred in early August, with gas deliveries to the Erbil Power Station commencing on 1 October 2008 via the 180 km pipeline at a rate of 85 MMscfpd and 4300 bpd of condensate. Construction of a full-scale LPG extraction plant is ongoing with the first train scheduled to commence production in the third quarter of 2009, which will increase production to 150MMscfpd, along with liquids. The second train will commence production at the end of 2009, when deliveries of gas will increase to 300MMscfpd plus liquids.

The Chemchamal appraisal programme includes acquiring seismic data, and drilling 2 appraisal wells. The estimated cost of this work programme is around USD 50 million.

The initial costs for the Khor Mor Field development and the Chemchamal appraisal programme are being funded equally by the Company and its affiliate, Crescent Petroleum Company International Limited.

The following amounts represent the Group's 50% share of the assets and liabilities of the joint venture.

	2008 *USD mm*	*2007* *USD mm*
Assets:		
Long-term assets	**266**	64
Current assets	**18**	11
Total Assets	**284**	75
Liabilities:		
Long-term liabilities	-	-
Current liabilities	**25**	24
Total Liabilities	**25**	24
Net Assets	**259**	51

Subsequent to the year end on 5 February 2009 both Crescent Petroleum and Dana Gas have assigned their individual 50% interests into a newly formed company incorporated under the laws of British Virgin Island called Pearl Petroleum Company Limited.

23 INTEREST IN JOINT VENTURE (continued)

(b) UGTC / Emarat Joint Venture

The Group has a 50% interest in UGTC / Emarat Joint Venture which is formed to develop the largest gas pipeline in the UAE (48 inch diameter) with a design capacity of 1000 MMscfd, to transport gas in Sharjah from Sajaa to Hamriyah. The following amounts represent the Group's 50% share of the assets and liabilities of the joint venture:

	2008 USD mm	*2007 USD mm*
Assets:		
Long-term assets	**25**	21
Current assets	**2**	-
Total Assets	**27**	21
Liabilities:		
Long-term liabilities	-	-
Current liabilities	-	-
Total Liabilities	-	-
Net Assets	**27**	21

(c) EBDGCO:

The Group's subsidiary Danagaz WLL has a 40% interest in the EBGDCO Project which is engaged in development of LPG plant in Egypt in partnership with Egyptian National Gas Company (EGAS) and Arab Petroleum Investment Corporation (APICORP). The following amounts represent the Group's interest in the assets and liabilities of the joint venture:

	2008 USD mm
Assets:	
Long-term assets	-
Current assets	**3**
Total Assets	**3**
Liabilities:	
Long-term liabilities	-
Current liabilities	-
Total Liabilities	-
Net Assets	**3**

24 CONTINGENCIES AND COMMITMENTS

Egypt

Centurion has three drilling rigs under contract in connection with the Years 2009 and 2010 budgeted drilling program in Egypt. In the event that Centurion does not proceed with planned drilling with these rigs, Centurion would be obligated to pay the rig operators a variable rate based on days not utilised under the contracts. The maximum commitment at 31 December 2008 related to these contracts is approximately USD 16.7 million which could be reduced by farm-outs to other operators.

In March 2007, Centurion entered into a Purchase commitment for casing and tubing with Tenaris for an amount of USD 23.6 million. As at 31 December 2008, inventory of USD 6 million was still outstanding and will be received and paid for by 31 March 2009.

In May 2004, Centurion was awarded the West El Manzala and West El Qantara blocks in the Nile Delta of Egypt. Centurion has committed to spend USD 11 million on the West El Manzala block and USD 7 million on the West El Qantara block during the first phase of exploration. These commitments are supported by performance bonds issued by BNP Paribas and supported by Export Development Canada. As at 31 December 2008, Centurion has fulfilled its spending commitment related to the West El Manzala block and was notified that the USD 11 million West El Manzala letter of guarantee has been released by the Egyptian Government. To date, Centurion has incurred costs in excess of its commitment related to the West El Qantara block and the guarantee has been released in March 2009.

In March 2006, Centurion entered into an agreement with CTIP Oil and Gas Limited ("CTIP") to acquire a 25 percent working interest in the West El Manzala and West El Qantara Concessions. Following the closing of this acquisition, the Company held a 100 percent participating interest in each of these Concessions. As agreed under the terms of the acquisition agreement Centurion has paid USD 13 millions as a result of the first Government approved Plan of Development in the West El Manzala Concession. In addition, Centurion has agreed to pay additional payments that could total up to a further USD 12.5 million as and when discovery volumes equal or in excess of 1Tcf of Proved Reserves. Centurion has also granted a three percent net profits interest to CTIP on future profit from the Concessions.

On 14 March 2006, Centurion signed a Production Sharing Contract ("PSC") and formal granting by the Joint Development Zone of its 10 percent (gross) equity interest, 9.5 percent (net) in Block 4 of the Nigeria/Sao Tome. Under the PSC Centurion has paid USD 6.8 million being its share of the total signature bonus. Centurion is obligated to pay USD 5 million (net) for its share in the minimum expenditure of USD 53 million for the block. This obligation is expected to be paid through 2009. This commitment is supported by a performance bond issued by BNP Paribas and supported by Export Development Canada.

Kurdistan Region of Iraq (KRI) Project

Dana Gas and Crescent have incurred over USD 266 million (each) expenditure to date although commitments, not yet accrued, amount to approximately USD 84 million (each) for the development project in the Kurdistan Region of Iraq.

25 SHARE BASED PAYMENT RESERVE

The accumulated charge recognised under share based payment plans is shown in the following table:

	2008 USD mm	*2007 USD mm*
Expense arising from share-based payment transactions	**4**	2
	4	2

25 SHARE BASED PAYMENT RESERVE (continued)

The share-based payment plans are described below:

Key Employee Long Term Incentive Plan ("LTIP")

The LTIP seeks to align employee and shareholder interests and reward company and employee performance over an extended period through the payment of cash bonuses calculated by reference to the market price of one share as compared to its exercise price determined at the time of grant. Options in the plan vest upon completion of a defined service period. Pursuant to the shareholder's approval and resolution of the Board of Directors in 2008 the rules of the LTIP were amended to allow the exercise of existing and new share options to be satisfied by the use of shares. Subsequently, all options granted in 2007 were converted from cash-settled to equity-settled share options. In fiscal 2008, new options were granted over 4,200,000 shares with an average fair value of AED 1.09 per option.

Pioneer Grant

The Pioneer Grant is a one-time option grant aimed to recognize the pioneering spirit of the founding members of the management team of Dana Gas PJSC. Options in the plan vest upon completion of a defined service period. Pursuant to the shareholder approval and resolution of the Board of Directors in 2008 the rules of the Pioneer Grant were amended to allow the exercise of existing share options to be satisfied by the use of shares. Subsequently, all options granted in 2007 (4,275,000 shares with an average exercise price of AED 1.00) were converted from cash-settled to equity-settled share options. In addition, options over 1,650,000 shares with an average exercise price of AED 1.00 were awarded to individuals who did not receive a share option grant in 2007. The average fair value of these options is AED 0.90 per option.

26 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties.

Transactions with related parties included in the income statement are as follows:

	2008		*2007*	
	Revenues USD mm	***Fees for management services USD mm***	*Revenues USD mm*	*Fees for management services USD mm*
Associated companies	**1**	**-**	1	-
Major shareholders	**-**	**2**	-	2
	1	**2**	1	2

The remuneration to the Board of Directors has been disclosed in the statement of changes in equity.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2008 USD mm	*2007 USD mm*
Short-term benefits	**6**	8
Stock options	**2**	2
	8	10

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise convertible bonds, finance leases and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk. The Board of Directors review and agree policies for managing each of these risks which are summarised below.

Foreign currency risk
The Group is not exposed to significant foreign currency risk, as significant portion of the Group's assets, liabilities, revenues and expenses are USD denominated.

Credit risk
The majority of Group trade receivables relate to the Egyptian Government, arising from its operations in Cairo.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and other receivables the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds, finance leases and trade payables. The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments:

Year ended 31 December 2008

	On demand USD mm	*Less than 3 months USD mm*	*3 to 12 months USD mm*	*1 to 5 years USD mm*	*>5 years USD mm*	*Total USD mm*
Convertible bonds	-	**6**	**52**	**1,126**	-	**1,184**
Trade and other payables	-	**109**	-	-	-	**109**
Provisions	-	-	-	-	**10**	**10**
	-	**115**	**52**	**1,126**	**10**	**1,303**

Year ended 31 December 2007

	On demand USD mm	*Less than 3 months USD mm*	*3 to 12 months USD mm*	*1 to 5 years USD mm*	*>5 years USD mm*	*Total USD mm*
Convertible bonds	-	6	56	1,300	-	1,362
Trade and other payables	-	97	-	-	-	97
Finance lease obligations	-	-	1	-	-	1
Provisions	-	-	-	-	5	5
	-	103	57	1,300	5	1,465

Capital management
The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2008 and the period ended 31 December 2007. Capital comprises share capital, retained earnings, other reserves and equity component of convertible bonds, and is measured at USD 1,914 million as at 31 December 2008 (2007: USD 1,889 million).

28 FINANCIAL INSTRUMENTS

Fair values
Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount 2008 USD mm	***Fair value 2008 USD mm***	*Carrying amount 2007 USD mm*	*Fair value 2007 USD mm*
Financial assets				
Cash and short term deposits	**217**	**217**	541	541
Financial liabilities				
Convertible bonds	**856**	**856**	916	916
Obligations under finance leases	**-**	**-**	1	1

The fair value of convertible bonds is the amortized cost determined as the present value of discounted future cash flows using the effective interest rate. The Group considers that the carrying amounts of trade and other receivables, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and therefore excluded from the above table.