Dana Gas PJSC and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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 2009.

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 the 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. It has offices in Sharjah, Egypt, Saudi Arabia, Bahrain, the Kurdistan Region of Iraq and in the United Kingdom

Results for year ended 31 December 2009

During the current year, Dana Gas achieved gross revenues of AED 1.28 billion as compared to AED 1.14 billion in 2008; an increase of 12%. The increase in revenue was mainly contributed to by a full year of condensate sales in Kurdistan Region of Iraq, compared to 3 months sales in 2008. In Egypt, revenue earned was at a similar level to 2008, with increased production largely compensated by the lower realized prices of LPG and condensate.

2009 Gross profit of AED 436 million (2008: AED 258 million) was higher by 69%, over the corresponding period, due to contribution from condensate sales in Kurdistan and higher production in Egypt.

The Group achieved a net profit after tax of AED 88 million during the current year as compared to AED 120 million in 2008. The decline in net profit was mainly due to exploration write offs in line with the "successful efforts" accounting policy adopted by the Company, plus the impairment of certain oil and gas assets. However, Earnings before Interest, Tax, Depreciation, Amortization and Exploration (EBITDAX) increased by 150 % from AED 575 million to AED 1.44 billion, mainly due to gain on sale of 10% of the Company's interest in Pearl Petroleum Company Limited (PPCL) earlier in 2009 and the sale of 50% of the Company's interest in the Komombo concession in Egypt in December.

The above net profit **excludes** an unrealized gain of AED 370 million recorded in 2009 for the Company's investment in MOL (the Hungarian oil and Gas Company, who are one of our partners in Kurdistan). This is booked directly to equity under "Comprehensive Income" in line with the Company's published accounting policy.

The total Comprehensive Income for the year stood at AED 458 million compared to AED 120 million last year.

Liquidity and Financial Resources

During the period, the operating cash flow and the Group's cash and bank balances were principally used to fund its capital expenditure programme in Egypt, Kurdistan, Offshore Sharjah and Nigeria.

The Group's cash and bank balances as at 31 December 2009 stood at AED 781 million (2008: AED 798 million) of which 96% was held with local banks in the UAE.

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 growth through a strategy of targeted acquisitions and new business development across the gas value chain. We continue to balance our capital expenditure with the available sources of finance to ensure we maintain a robust Balance Sheet.

Egypt E&P operations

Dana Gas Egypt ended 2009 by achieving the production target of 40,000 barrels of oil equivalent (boe) with production for the full year of operations of 12.7 Million Barrels of Oil Equivalent ("MMBOE") i.e. averaging in excess of 34,700 boepd (barrels of oil equivalent per day). This represents an increase of 20% over last year's total production. During the year, the Company continued its exploration success by adding eight more gas discoveries (67% rate of success) and subsequent to the year end, announced its 9th discovery, (Orchid-1) drilled in the West Manzala Concession. In January 2010, the Company also announced a new oil discovery in the Komombo Concession (Al Baraka-4).

The U.K. based advisory firm, Gaffney, Cline & Associates have carried out an independent evaluation of Dana Gas Egypt's hydrocarbon reserves as at 31 December 2009. Following this review, the Company's gross proved reserves (1P) as at 31 December 2009 are estimated to be 47 MMBOE (31 December 2008: 55 MMBOE). The gross proved and probable reserves (2P) as at 31 December 2009 are estimated to be 132 MMBOE (31 December 2008: 94 MMBOE). The gross proved, probable and possible reserves (3P) as at 31 December 2009 are estimated to be 228 MMBOE (31 December 2008: 158 MMBOE). Note: All volumes reported are on working interest basis.

The 2P reserves results give a total reserves addition of 40%. The total production replacement ratio associated with this 2P reserves increase is 397%.

In December 2009, Dana Gas Egypt entered into a settlement agreement with Kuwait International Oil and Environmental Services and Consulting Co. WLL (KIOEC) for reassignment of their 50% interest in the Komombo Concession in Southern Egypt to Dana Gas Egypt. Following completion of this settlement agreement, Dana Gas Egypt farmed out the 50% interest in the Komombo Concession to Sea Dragon Energy Limited ("Sea Dragon") on 31 December 2009. Dana Gas Egypt and Sea Dragon will act as joint operators of this concession. Endorsement from the Ganoub El-Wadi Holding Petroleum Company (a body corporate existing under the laws of Egypt) and Ministry of Petroleum has been obtained.

Kurdistan Region of Iraq (KRI) Project (Pearl Petroleum Company Limited)

In April 2007, the Group entered into agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources on the Khor Mor and Chemchemal gas fields. Since then, the focus has been on developing, processing and transporting natural gas on a fast-track basis, from the Khor Mor field including processing and the extraction of LPG and condensate, provide natural gas supplies to fuel domestic electric power generation plants near the major urban centers of Erbil and Suleymania. Further development of the gas reserves are planned to supply natural gas as feedstock and energy for local industries.

On 15 May 2009, Dana Gas signed a Share Sale Agreement with two Central European strategic partner companies and Nabucco Project Founders, OMV Upstream International GmbH ("OMV") and MOL Hungarian Oil and Gas Public Limited Company ("MOL") whereby an equity interest of 10% was sold by Dana Gas to OMV (5%) and MOL (5%) respectively in Pearl Petroleum Company Limited.

Dana Gas now holds a 40% share of the total assets of Pearl Petroleum Company Limited. As at 31 December 2009, the Dana Gas investment in Kurdistan exceeds AED 1.2 billion.

Gas Cities

Dana Gas has a 50% interest in a joint venture known as GASCITIES Ltd for the development of a series of "Gas Cities" across the MENASA region.

On 9 September 2009, GASCITIES Ltd signed a Memorandum of Understanding to carry out a series of pre-feasibility studies to establish gas and land allocations for a potential Gas City in the Hodeidah Region of Yemen.

The company is also assessing the feasibility for Gas Cities in Egypt and in Kurdistan.

UAE Gas Project

The UAE Gas Project to process and transport imported gas continues to await the commencement of gas supplies by National Iranian Oil Company ("NIOC") to Crescent Petroleum. Dana Gas has a 35% interest in Crescent National Gas Corporation Limited (CNGCL) and owns 100% of SajGas and UGTC. After a delay of over 4 years, we understand that NIOC has recently introduced hydrocarbons into the completed upstream facilities (within Iran) to progress the commissioning and testing activities. This potentially allows for contractual gas deliveries to commence. Notwithstanding this, Crescent Petroleum has served NIOC with an arbitration notice several months ago and the legal process is now underway. The Balance Sheet carrying values of these assets at 31 December 2009 have been reviewed with the auditors. No impairment provisions are considered necessary at this time.

Egypt Gulf of Suez – Gas Liquids (LPG) Plant

The Company, through Danagaz Bahrain, is a 26.4% owner in a joint venture to build, own and operate a Liquids Extraction Plant in Egypt in partnership with the Egyptian National Gas Company (EGAS) and the Arab Petroleum Investments Corporation (APICORP). The formation of the joint venture company in Egypt and the acquisition of the land for the plant have been completed. The contract for the LPG plant was awarded in June 2009, with the construction phase expected to be completed in the first quarter of 2011.

Sharjah Western Offshore Concession

In March 2008, Dana Gas was awarded a twenty five year oil and gas 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 GCC exploration and production sector, and will also be the first offshore upstream asset for the Company. The concession agreement covers a total area of over 1,000 square kilometers including part of the Zora Gas Field, which has established gas reserves and a ready market.

The Company is in the initial execution phase of this project, which includes upstream development as well as transportation of the produced gas and condensates via a 25km offshore pipeline. A detailed engineering design for the offshore platform and the conceptual engineering design for the onshore gas processing plant are complete. Key management, engineering, procurement, construction and installation contracts are ready to be awarded. This project will add new production and revenues to Dana Gas, expanding its diversified portfolio.

Nigeria / Sao Tome and Principe Joint Development Zone – Block 4

Dana Gas holds a 10% interest in Block 4 of the Nigeria/Sao Tome Joint Development Zone. Block 4 is an extension of the prolific Nigeria deep water play where a number of significant oil discoveries have been made. Based on mapping of 3D seismic, several large structures capable of containing giant size oil fields were identified.

The Block 4 consortium, for which Addax Petroleum is the operator, drilled a gas discovery with the first well, which was not considered commercial. The second well, found no significant hydrocarbons. These outcomes have been reflected in the 2009 financial results.

Appropriations

The Board of Directors in their meeting held on 17 March 2010 resolved to recommend the issuance of 10% bonus shares to the shareholders subject to approval at the Annual General Meeting.

DANA GAS PJSC
Report of the Directors

Directors

The Directors who served during the year were:

H.H. Sheikh Ahmed Bin Sultan Al-Qasimi, Honorary Chairman
Mr. Hamid Dhiya Jafar, Chairman
Dr. Adel Khalid Al-Sabeeh, Deputy Chairman
Mr. Ahmed Rashid Al-Arbeed, Chief Executive Officer
Mr. Rashid Saif Al-Jarwan, Executive Director
H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al-Qasimi
Sheikha Hanadi Nasser Bin Khaled Al Thani
Mr. Abdulaziz Hamad Aljomaih
Mr. Abdullah Ali Almajdouie
Mr. Abdulla Nasser Huwaileel Al-Mansoori (until 22 April 2009)
Mr. Adib Abdullah Al-Zamil
Mr. Khalid Abdul Rahman Saleh Al-Rajhi
Mr. Majid Hamid Jafar
Mr. Nasser Mohammed Al Nowais
Mr. Rashad Mohammed Al-Zubair
Mr. Said Arrata
Dr. Tawfeeq Abdulrahman Almoayed
Mr. Varoujan Nerguizian
Mr. Ziad Abdulla Ibrahim Galadari

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
17 March 2010

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 statement of financial position as at 31 December 2009, the consolidated income statement, consolidated statement of comprehensive income, 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 2009, its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion we draw attention to note 12 to the consolidated financial statements which discloses that the continued delay in commencement of gas supplies has prompted a key supplier of the Group to initiate arbitration proceedings against its ultimate supplier. Based on the information available at this time, the Directors and management are confident of a positive outcome.

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
17 March 2010

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2009

		2009		*2008*	
	Notes	***USD mm***	***AED mm***	*USD mm*	*AED mm*
Revenue		**349**	**1,279**	311	1,139
Royalties		**(111)**	**(407)**	(130)	(477)
Net revenue	5	**238**	**872**	181	662
Cost of sales		**(33)**	**(121)**	(28)	(103)
Depreciation and depletion	11	**(86)**	**(315)**	(82)	(301)
Gross profit		**119**	**436**	71	258
Investment and finance income	6	**10**	**37**	40	148
Other income	7	**331**	**1,213**	27	98
Provision for impairments	8	**(116)**	**(425)**	-	-
Change in fair value of investment property	14	**(71)**	**(260)**	33	121
General and administration expenses		**(27)**	**(99)**	(22)	(82)
Finance costs (net)	9	**(55)**	**(202)**	(72)	(263)
Exploration expenses	11	**(119)**	**(436)**	(6)	(22)
PROFIT BEFORE TAX FOR THE YEAR		**72**	**264**	71	258
Income tax expense		**(48)**	**(176)**	(38)	(138)
PROFIT FOR THE YEAR		**24**	**88**	33	120
Basic and diluted earnings per share (USD/AED per share)	10	**0.004**	**0.015**	0.005	0.020

The attached explanatory notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009		*2008*	
	USD mm	***AED mm***	*USD mm*	*AED mm*
Profit for the year	**24**	**88**	33	120
Other comprehensive income:				
Gain on available-for-sale financial asset (note 13)	**101**	**370**	-	-
Other comprehensive income for the year	**101**	**370**	-	-
Total comprehensive income for the year	**125**	**458**	33	120

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

		2009		*2008*	
	Notes	***USD mm***	***AED mm***	*USD mm*	*AED mm*
ASSETS					
Non-current assets					
Property, plant and equipment	11	**941**	**3,449**	817	2,996
Intangible assets	12	**1,379**	**5,055**	1,604	5,878
Available-for-sale financial asset	13	**283**	**1,037**	-	-
Investment property	14	**39**	**143**	110	403
		2,642	**9,684**	2,531	9,277
Current assets					
Inventories	15	**46**	**169**	58	211
Trade and other receivables	16	**199**	**728**	132	484
Due from related parties		**2**	**7**	-	-
Financial assets at fair value through profit or loss	17	**9**	**33**	8	28
Cash and cash equivalents	18	**213**	**781**	217	798
		469	**1,718**	415	1,521
TOTAL ASSETS		**3,111**	**11,402**	2,946	10,798
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	19	**1,637**	**6,000**	1,637	6,000
Statutory reserve		**30**	**113**	28	104
Legal reserve		**30**	**113**	28	104
Retained earnings		**243**	**882**	225	819
Other reserves	20	**107**	**392**	4	15
Convertible bonds- equity component		**48**	**176**	48	176
Attributable to shareholders of the Company		**2,095**	**7,676**	1,970	7,218
Minority interest		**4**	**15**	1	3
Total equity		**2,099**	**7,691**	1,971	7,221
LIABILITIES					
Non-current liabilities					
Convertible bonds	21	**871**	**3,193**	856	3,138
Provisions	22	**14**	**51**	10	35
		885	**3,244**	866	3,173
Current liabilities					
Trade payables & accruals	23	**127**	**467**	109	403
Short term portion of finance lease obligations		-	-	-	1
		127	**467**	109	404
Total liabilities		**1,012**	**3,711**	975	3,577
TOTAL EQUITY AND LIABILITIES		**3,111**	**11,402**	2,946	10,798

Director
17 March 2010

Director
17 March 2010

The attached explanatory notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2009

	Notes	2009 USD mm	2009 AED mm	2008 USD mm	2008 AED mm
OPERATING ACTIVITIES					
Profit before tax		**72**	**264**	71	258
Adjustments for:					
Depreciation and depletion	11	**86**	**315**	82	301
Investment and finance income	6	**(10)**	**(37)**	(40)	(148)
Change in fair value of investment property	14	**71**	**260**	(33)	(121)
Other income	7	**(331)**	**(1,213)**	(12)	(44)
Finance costs	9	**55**	**202**	72	263
Exploration expenditure	11	**119**	**436**	6	22
Provision for impairment	8	**116**	**425**	-	-
Board compensation		**(2)**	**(7)**	(2)	(9)
		176	**645**	144	522
Changes in working capital:					
Trade and other receivables		**(41)**	**(150)**	(53)	(194)
Inventories		**(1)**	**(4)**	(18)	(66)
Accounts payable and accruals		**21**	**77**	4	16
Due to related parties		**(2)**	**(7)**	-	-
Net cash generated from operating activities		**153**	**561**	77	278
Income tax paid		**(48)**	**(176)**	(38)	(138)
Net cash from operating activities		**105**	**385**	39	140
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(151)**	**(556)**	(233)	(854)
Expenditure on intangibles	12	**(66)**	**(242)**	(66)	(240)
Proceeds from sale of interest in joint venture	25	**177**	**650**	-	-
Financial assets at fair value through profit or loss		**-**	**-**	(9)	(31)
Investment and finance income received		**9**	**32**	11	41
Proceeds from sale of assets held for sale		**-**	**-**	46	170
Net cash used in investing activities		**(31)**	**(116)**	(251)	(914)
FINANCING ACTIVITIES					
Repurchase of own convertible bonds		**(10)**	**(37)**	(38)	(140)
Finance costs paid		**(68)**	**(249)**	(74)	(271)
Net cash used in financing activities		**(78)**	**(286)**	(112)	(411)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4)**	**(17)**	(324)	(1,185)
Cash and cash equivalents at the beginning of the year		**217**	**798**	541	1,983
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18	**213**	**781**	217	798

The attached explanatory notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
At 31 December 2009

	Attributable to shareholders of the Company															
	Share capital		*Statutory reserves*		*Legal reserves*		*Retained earnings*		*Other 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 2007	1,637	6,000	25	92	25	92	200	732	-	-	52	191	-	-	1,939	7,107
Profit for the year	-	-	-	-	-	-	33	120	-	-	-	-	-	-	33	120
Total comprehensive income for the year	-	-	-	-	-	-	33	120	-	-	-	-	-	-	33	120
Repurchase of convertible bonds	-	-	-	-	-	-	-	-	-	-	(4)	(15)	-	-	(4)	(15)
Board compensation	-	-	-	-	-	-	(2)	(9)	-	-	-	-	-	-	(2)	(9)
Transfer to reserves	-	-	3	12	3	12	(6)	(24)	-	-	-	-	-	-	-	-
Transfer from trade payables and accruals (refer note 27)	-	-	-	-	-	-	-	-	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**
Other comprehensive income	-	-	-	-	-	-	-	-	**101**	**370**	-	-	-	-	**101**	**370**
Profit for the year	-	-	-	-	-	-	**24**	**88**	-	-	-	-	-	-	**24**	**88**
Total comprehensive income for the year	-	-	-	-	-	-	**24**	**88**	**101**	**370**	-	-	-	-	**125**	**458**
Transfer to reserves	-	-	**2**	**9**	**2**	**9**	**(4)**	**(18)**	-	-	-	-	-	-	-	-
Share based payment (note 27)	-	-	-	-	-	-	-	-	**2**	**7**	-	-	-	-	**2**	**7**
Board compensation	-	-	-	-	-	-	**(2)**	**(7)**	-	-	-	-	-	-	**(2)**	**(7)**
Minority interest arising on business combination	-	-	-	-	-	-	-	-	-	-	-	-	**3**	**12**	**3**	**12**
At 31 December 2009	**1,637**	**6,000**	**30**	**113**	**30**	**113**	**243**	**882**	**107**	**392**	**48**	**176**	**4**	**15**	**2,099**	**7,691**

The attached explanatory notes 1 to 30 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2009

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, London, Kurdistan Region of Iraq, Bahrain and Cairo.

Principal subsidiaries and jointly controlled entities of the Group at 31 December 2009 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
Dana Gas Egypt (previously Centurion)	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**
Pearl Petroleum Company Limited ("Pearl Petroleum")*	40	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
GASCITIES Ltd	50	MENASA	Gas Cities

These consolidated financial statements were approved by the Board of Directors on 17 March, 2010.

* On 5 February 2009 Dana Gas and Crescent Petroleum Company International Limited ("Crescent") assigned their individual 50% interest in an unincorporated joint venture to a newly formed Company incorporated under the laws of British Virgin Islands called Pearl Petroleum Company Limited. All the assets and liabilities of the Joint Venture as at 4 February 2009 were transferred at cost to Pearl Petroleum.

On 15 May 2009, Dana Gas and Crescent signed a Share Sale Agreement with OMV Upstream International GmbH ("OMV") and MOL Hungarian Oil and Gas Public Limited Company ("MOL") wherein an equity interest of 5% each was sold by Dana Gas and Crescent to OMV and MOL respectively. Consequently, the new shareholding interest in Pearl Petroleum is as follows: 40% to Dana Gas, 40% to Crescent, 10% to OMV and 10% to MOL.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, available-for-sale financial assets and financial assets at fair value through profit and loss account that have been measured at fair value. The consolidated financial statements are presented in United States Dollar (USD), which is the Group's functional currency, and all the 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 to readers of the consolidated financial statements. AED amounts have been translated at the rate of AED 3.6655 to USD 1.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

- *IFRS 7 'Financial Instruments – Disclosures' (amendment) – (effective 1 January 2009).*
  The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment required disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- *IAS 1 (revised). 'Presentation of financial statements' – (effective 1 January 2009).*
  The revised standard prohibits 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 in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- *IFRS 2 (amendment), 'Share Based Payment'- (effective 1 January 2009)*
  This amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment did not have a material impact on the Group's financial statements.

- *IAS 23 Borrowing Cost*
  The revised standard requires capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. This has no impact on the Group's financial statements as its existing accounting policy requires capitalisation of borrowing costs.

- *IFRS 8 'Operating Segments' (effective 1 January 2009)*
  The standard introduces the management approach to segment reporting. IFRS 8, which became mandatory for the Group's 2009 financial information required 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. The management concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD which is Company's functional currency where AED is presented as the group's presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) 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.

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 (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). 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 net of accumulated depreciation and/or accumulated impairment losses, if any. Land is not depreciated.

Depreciation is computed on a straight line basis over the estimated useful lives of the 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 at each financial year end, and adjusted prospectively if appropriate.

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 or depleted in accordance with Group policies.

Oil and gas 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.

(a) Depletion

Oil and gas properties are depleted using the unit-of-production method. Unit-of-production rates are based 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 assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 reflected in the income statement.

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 not amortised but tested for impairment annually either individually or at the cash-generating unit level. 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 (AFS) 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. After initial measurement, AFS investments are subsequently measured at fair value with unrealised gains or losses recognised as "Other comprehensive income" in the AFS reserve until the investment is derecognised. At that time cumulative gain is recognised in other income and cumulative loss is recognised as Finance costs and removed from AFS reserve.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 stated at fair value, which reflects market conditions at the reporting date. Any gains or loss arising from changes in fair values of investment properties are included in the 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.

Accounts 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.

Provisions

General
Provisions are recognised when the Group has an present 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 and are recognised as part of that particular asset. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 acquisition, construction or production of an asset that necessarily takes substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of respective 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 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.

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").

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment transactions (continued)

Equity-settled transaction (continued)

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:

- Impairment of goodwill: The Group determines whether goodwill is impaired 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 2009 was USD 308 million (2008: 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 2009 was USD 1,071 million (2008: USD 1,296 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 consultant to determine fair value reflecting market conditions as at 31 December 2009.

4 SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions. The CEO considers the business from a geographic perspective which is divided into four geographical units.

Year ended 31 December 2009

	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	**4**	**192**	**42**	**-**	**238**
Total revenue net of royalties	**4**	**192**	**42**	**-**	**238**
Gross Profit	**3**	**79**	**37**	**-**	**119**
Investment and finance income					**10**
Other Income					**331**
Provision for Impairment					**(116)**
Change in fair value of investment property					**(71)**
General and administration expenses					**(27)**
Finance costs (net)					**(55)**
Exploration cost write-off					**(119)**
Profit before income tax					**72**
Income tax expense					**(48)**
PROFIT FOR THE YEAR					**24**
Segment assets at 31 December 2009	**1,697**	**1,045**	**369**	**-**	**3,111**
Segment liabilities at 31 December 2009	**905**	**77**	**30**	**-**	**1,012**
Other segment information					
Capital expenditures:					
Intangible assets	1	53	-	12	66
Property, plant and equipment	12	79	95	-	186
Total	13	132	95	12	252
Depreciation, depletion & amortization	**(1)**	**(85)**	-	-	**(86)**
Provision for impairment	-	**(39)**	-	**(77)**	**(116)**
Changes in fair value of investment property	**(71)**	-	-	-	**(71)**
Exploration costs written off	-	**(107)**	-	**(12)**	**(119)**

4 SEGMENTAL INFORMATION (continued)

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
Gross Profit	2	64	5	-	71
Investment and finance income					40
Other income					27
Change in fair value of investment property					33
General and administrative expenses					(22)
Finance costs (net)					(72)
Exploration cost write-off					(6)
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
Other segment information					
Capital expenditures:					
Intangible assets	1	59	-	-	60
Property, plant and equipment	18	37	209	-	264
Total	19	96	209	-	324
Depreciation, depletion & amortization	(1)	(81)	-	-	(82)
Change in fair value of investment property	33	-	-	-	33
Exploration costs written off	-	(6)	-	-	(6)

5 NET REVENUE

	2009 USD mm	2008 USD mm
Gross sales	345	308
Less: Royalties	(111)	(130)
Net sales	234	178
Tariff fee	4	3
Net revenue	238	181

6 INVESTMENT AND FINANCE INCOME

	2009 USD mm	2008 USD mm
Profit share from bank deposits	9	11
Gain on derecognition of Sukuk liability (note 21)	-	30
Fair value gain / (loss) on financial assets at fair value through profit or loss (note 17)	1	(1)
	10	40

7 OTHER INCOME

	2009 USD mm	2008 USD mm
Gain on sale of interest in Pearl Petroleum (note 25)	292	-
Gain on sale of interest in Komombo (note 25)	35	-
Gain on disposal of interest in West Gharib	-	12
Others	4	15
	331	27

8 PROVISION FOR IMPAIRMENTS

	2009 USD mm	2008 USD mm
Provision for Impairment of:		
- Oil & Gas assets (note 12)	84	-
- inventory (note 15)	13	-
- doubtful debts (note 16)	19	-
	116	-

9 FINANCE COSTS (net)

	2009 USD mm	2008 USD mm
Finance cost on convertible bonds (note 21)	83	88
Finance cost capitalised	(28)	(16)
	55	72

10 EARNINGS PER SHARE

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

	2009	*2008*
Earnings:		
Net Profit for the period- USD mm	**24**	33
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	**6,000**	6,000
EPS (Basic) – USD:	**0.004**	0.005

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible sukuk and share options. The convertible sukuk is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the finance cost effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2009	*2008*
Earnings:		
Net Profit for the period- USD mm	**24**	33
Finance cost on convertible sukuk	**75**	75
	99	108
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	**6,000**	6,000
Adjustments for:		
Assumed conversion of convertible Sukuk (million)*	**1,734**	1,734
Share options (million)**	**-**	3
Weighted average number of ordinary shares for diluted earnings per share (million)	**7,734**	7,737

*As disclosed in Note 21, on 7 July 2008, the conversion rate for the convertible sukuk was determined and has been fixed at 17,343.3 shares for every USD 10,000 Sukuk Certificate. As at 31 December 2009 the conversion had an anti-dilutive effect on the EPS of the Company.

**As at 31 December 2009 all the stock options issued to employees were out of money, hence no shares have been assumed for calculating diluted earnings per share.

11 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 & related facilities USD mm*	*Capital work-in-progress USD mm*	*Total USD mm*
Cost:								
At 1 January 2009	**13**	**1**	**349**	**80**	**14**	**25**	**479**	**961**
Additions	-	-	**57**	**13**	**2**	-	**114**	**186**
Transfer from Intangible assets (note 12)	-	-	**207**	-	-	-	-	**207**
Disposal of Interest in Joint Venture (note 25)	-	-	-	-	-	-	**(64)**	**(64)**
Dry hole costs written-off	-	-	**(119)**	-	-	-	-	**(119)**
At 31 December 2009	**13**	**1**	**494**	**93**	**16**	**25**	**529**	**1,171**
Depreciation/Depletion:								
At 1 January 2009	-	-	**129**	**12**	**2**	**1**	-	**144**
Depreciation/depletion charge for the year	-	-	**77**	**4**	**4**	**1**	-	**86**
At 31 December 2009	-	-	**206**	**16**	**6**	**2**	-	**230**
Net carrying amount:								
At 31 December 2009	**13**	**1**	**288**	**77**	**10**	**23**	**529**	**941**

Capital Work in Progress comprises:

	USD mm
SajGas Plant and facilities	**120**
UGTC Pipeline & Related facilities	**89**
Kurdistan Region of Iraq Project	**306**
Others	**14**
	529

11 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*	*Pipeline & related 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 & Related facilities	88
Kurdistan Region of Iraq Project	273
Others	2
	479

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 2009	431	857	7	1	308	1,604
Additions	65	-	-	1	-	66
Transfer to PP&E (note 11)	(207)	-	-	-	-	(207)
Provision for Impairment (note 8)	(84)	-	-	-	-	(84)
At 31 December 2009	**205**	**857**	**7**	**2**	**308**	**1,379**
At 31 December 2008	431	857	7	1	308	1,604

(a) Oil and Gas Interests

Oil and gas interests of USD 205 million relates to Dana Gas Egypt which is the Upstream (Exploration and Production) Division of the Dana Gas Group. Dana Gas Egypt has a number of concessions and development leases in Egypt which are described below in more detail:

- El Wastani Development Leases – These development leases is held with a 100% working interest and represents approximately 60% of current production. El Wastani production includes both gas and associated gas liquids. These leases have 13,017 acres of land included within boundaries and is located in the Nile Delta of Egypt.

- South El Manzala Development Leases – These development leases are held with a 100% working interest and are not currently producing. These development leases have 16,055 acres of land included within their boundaries and are located in the Nile Delta of Egypt.

- West El Manzala Exploration Concession – Dana Gas Egypt holds a 100% working interest in this Concession, which includes 476,216 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land is 30th June 2012. 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, five development leases have been created from this exploration concession and produce approximately 40% of current volumes and produce both natural gas and associated liquids. Three out of five development leases commenced production this year namely EL Basant, Sondos and Azhar fields which commenced production in March, June and December 2009 respectively.

- West El Qantara Exploration Concession – Dana Gas Egypt holds a 100% working interest in this Concession, which includes 319,618 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land is 30th June 2012. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt. Three discoveries have been made (Salma, Tulip and Sama) during the last 12 months and appraisal and development plans are currently carried out.

- Kom Ombo Exploration Concession – Dana Gas Egypt holds a 50% working interest in this Concession, which includes 5,654,727 acres of exploration land. During Q1 2009, Dana Gas Egypt sent a Notice of Default to Kuwait International Oil and Environmental Co. (KIOEC) which was followed by a Termination Notice. In December 2009, Dana Gas Egypt entered into a settlement agreement with Kuwait International Oil and Environmental Services and Consulting Co. WLL (KIOEC) for reassignment of their 50% interest in the Komombo Concession in Southern Egypt to Dana Gas Egypt. Following completion of this settlement agreement, Dana Gas Egypt farmed out the 50% interest in the Komombo Concession to Sea Dragon Energy Limited ("Sea Dragon") on December 31st 2009. To date one development lease has been created from this exploration concession and produces approximately 0.4% of current volumes and produces only oil.

12 INTANGIBLE ASSETS (continued)

(a) Oil and Gas Interests (continued)

In addition to the above Dana Gas has the following interests which were acquired as part of Centurion acquisition:

- Block 4 Sao Tome/Nigeria – 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 –exploration rights in relation to up to a 50 percent working interest in deeper prospective horizons that underlie upper producing horizons. The deeper prospects rights which have been retained 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.

Management has carried out a review of each of the oil and gas interests and has created a provision for impairment amounting to USD 84 million against JDZ Block-4, Tunisia and Komombo.

(b) Purchase, transmission, sweetening and sale rights

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 in 2005 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. The ultimate supplier of gas, NIOC, has after a delay of over 4 years completed the installation of all the main components of the required upstream facilities in Iran. Crescent Petroleum, which has the gas supply contract with NIOC, has recently announced that it is taking NIOC to international arbitration pursuant to its contract, in response to demands for performance by customers in the UAE given the four years of delays in delivery of the contractual quantities of natural gas by NIOC. Based on the information available at this time, the Directors and management are confident of a positive outcome.

In accordance with IAS 36 requirement relating to intangible assets not yet available for use, management had undertaken an impairment review of the intangible assets as at 31 December 2009. Management understands that progress has been made on the construction of the required facilities by the ultimate gas supplier and has reviewed the various inputs into the original valuation model. Management believes 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 2009 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.

12 INTANGIBLE ASSETS (continued)

(b) Purchase, transmission, sweetening and sale rights (continued)

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.

(c) Goodwill

Goodwill of USD 308 million relates to the acquisition of Dana Gas Egypt (previously known as Centurion) in January 2007 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 value in use calculation using cash flow projections approved by senior management up to a 20 year period or the economic limit of the producing field. The pre-tax discount rate applied to cash flow projections is 10% (2008: 10%). Cash flows are generated using forecasted production, capital and operating cost data over the expected life of each accumulation.

13 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2009 USD mm
Balance at 1 January	-
Additions (note 25)	**182**
Change in fair value	**101**
Balance at 31 December	**283**

The Group holds 3,161,116 ordinary shares in MOL received as consideration on disposal of an interest in Pearl Petroleum. These shares are listed on the Budapest Stock Exchange and have been fair valued with reference to published price quotation at 31 December 2009.

14 INVESTMENT PROPERTY

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

	2009 USD mm	*2008 USD mm*
Balance at 1 January	**110**	77
Change in fair value	**(71)**	33
Balance at 31 December	**39**	110

Investment property consists of industrial land owned by SajGas, a subsidiary, in the Sajaa area of the Emirate of Sharjah, United Arab Emirates. 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 an independent firm of qualified property consultants, with reference to comparable market transactions. This valuation reflects the recent sharp decline in property values generally and has therefore resulted in a decrease in the fair value by USD 71 million (31 December 2008: increase of USD 33 million) which was charged to the consolidated income statement.

15 INVENTORIES

	2009	*2008*
	USD mm	*USD mm*
Spares and consumables	**59**	58
Less: Provision for impairment of inventory (note 8)	**(13)**	-
	46	58

16 TRADE AND OTHER RECEIVABLES

	2009	*2008*
	USD mm	*USD mm*
Trade receivables	**135**	94
Prepaid expenses	**1**	1
Other receivables	**82**	37
Less: Provision for impairment of other receivables (note 8)	**(19)**	-
	199	132

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*
2009	**135**	**48**	**12**	**12**	**11**	**11**	**41**
2008	94	32	12	13	6	12	19

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009	*2008*
	USD mm	*USD mm*
Balance at 1 January	**8**	-
Investment during the year	**-**	10
Investment redeemed during the year	**-**	(1)
Fair value gain / (loss)	**1**	(1)
Balance at 31 December	**9**	8

18 CASH AND CASH EQUIVALENTS

	2009 USD mm	*2008 USD mm*
Cash at bank and on hand		
- Local Banks within UAE	**20**	24
- Foreign Banks outside UAE	**8**	10
Short term deposits		
Local Banks within UAE	**182**	183
Cash in transit	**3**	-
	213	217

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 213 million (2008: USD 217 million). The effective profit rate earned on short term deposits ranged between 2.5% to 6.1% (2008: between 2.5% and 5.25%) per annum. As at 31 December 2009 96% of Cash and Cash equivalents were held with UAE banks.

19 SHARE CAPITAL

	2009 USD mm	*2008 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

The Board of Directors in their meeting held on 17 March 2010 resolved to recommend the issuance of 10% bonus shares to the shareholders subject to approval at the Annual General Meeting.

20 OTHER RESERVES

	Share option USD mm	*Fair value reserve USD mm*	*Total USD mm*
At 1 January 2008	-	-	-
Transfer from trade payable	4	-	4
At 31 December 2008	**4**	-	**4**
Value of employee services (note 27)	2	-	2
Change in fair value of available-for-sale financial assets (note 13)	-	101	101
At 31 December 2009	**6**	**101**	**107**

21 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 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.

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.

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity.

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

	2009 ***USD mm***	*2008* *USD mm*
Liability component as at 1 January	**856**	916
Liability derecognised during the year	**-**	(74)
Finance cost (note 9)	**83**	88
Profit paid	**(57)**	(62)
	882	868
Current portion of profit classified under trade and other payable (note 23)	**(11)**	(12)
Liability component at 31 December	**871**	856

22 PROVISIONS

	2009 ***USD mm***	*2008* *USD mm*
Asset decommissioning obligation	**12**	9
Employee's end of service benefits	**2**	1
	14	10

23 TRADE PAYABLES AND ACCRUALS

	2009 ***USD mm***	*2008* *USD mm*
Trade payables	**63**	53
Accrued expenses and other payables	**53**	43
Profit accrued on convertible bonds (note 21)	**11**	12
Amount due to related parties	**-**	1
	127	109

24 INTEREST IN JOINT VENTURE

(a) Kurdistan Region of Iraq Project

In April 2007, the Group entered into agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources on the Khor Mor and Chemchemal gas fields. Since then, the focus has been on developing, processing and transporting natural gas on a fast-track basis, from the Khor Mor field including processing and the extraction of LPG and condensate, provide natural gas supplies to fuel domestic electric power generation plants near the major urban centers of Erbil and Suleymania. Further development of the gas reserves are planned to supply natural gas as feedstock and energy for local industries.

With effect from 5 February 2009 Dana Gas and Crescent assigned their benefits and obligations under the Authorisation to Pearl Petroleum as advised in the Notice of Assignment and Undertaking to the KRG dated 5 February 2009, which was acknowledged as received by the Kurdistan Region Minister of Natural Resources on behalf of the KRG. Accordingly, all the assets and liabilities of the Joint Venture as at 4 February 2009 were transferred at cost to Pearl Petroleum.

On 15 May 2009, Dana Gas and Crescent signed a Share Sale Agreement with OMV and MOL wherein an equity interest of 5% each was sold by Dana Gas and Crescent to OMV and MOL respectively. Consequently, the new shareholding interest in Pearl Petroleum is as follows: 40% to Dana Gas, 40% to Crescent, 10% to OMV and 10% to MOL.

The following amounts represent the Group's 40% share of the assets and liabilities of the joint venture:

	2009 ***USD mm***	*2008* *USD mm*
Assets:		
Long-term assets	**306**	273
Current assets	**63**	18
Total Assets	**369**	291
Liabilities:		
Long-term liabilities	**-**	-
Current liabilities	**31**	25
Total Liabilities	**31**	25
Net Assets	**338**	266
Income	**42**	8
Expenses	**(5)**	(3)
Profit after income tax	**37**	5

Pearl Petroleum and its shareholders since 18 May 2009 are engaged in an ongoing dialogue with the Ministry of Natural Resources of the KRG as to the interpretation of the agreements ("the Authorisation").

Pearl Petroleum and its shareholders have assessed the legal position with advice from their legal advisers and are fully confident of Pearl Petroleum's rights under the Authorisation in accordance with applicable law. Pearl Petroleum and the shareholders' judgment, based on such assessment and the progress of the continuing dialogue with the KRG, is that these discussions should result in a satisfactory outcome which should not have a material adverse impact on the state of the Pearl Petroleum or the carrying values of its assets.

24 INTEREST IN JOINT VENTURE (continued)

(b) UGTC / Emarat Joint Venture

The Group has a 50% interest in UGTC / Emarat unincorporated Joint Venture which has developed 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:

	2009 USD mm	*2008 USD mm*
Assets:		
Long-term assets	**24**	25
Current assets	**5**	2
Total Assets	**29**	27
Liabilities:		
Long-term liabilities	-	-
Current liabilities	-	-
Total Liabilities	-	-
Net Assets	**29**	27
Income	**4**	3
Expenses	**(2)**	(1)
Profit after income tax	**2**	2

(c) EBDGCO:

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

	2009 USD mm	*2008 USD mm*
Assets:		
Long-term assets	**4**	-
Current assets	**6**	3
Total Assets	**10**	3
Liabilities:		
Long-term liabilities	-	-
Current liabilities	-	-
Total Liabilities	-	-
Net Assets	10	3

25 DISPOSAL OF INTEREST IN JOINT VENTURE

(a) Disposal of Interest in Pearl Petroleum Company Limited

On 15 May 2009, Dana Gas and Crescent signed a Share Sale Agreement with OMV and MOL wherein an equity interest of 5% each was sold by Dana Gas and Crescent to OMV and MOL respectively. Consequently, the new shareholding interest in PPCL is as follows: 40% to Dana Gas, 40% to Crescent, 10% to OMV and 10% to MOL.

The assets and liabilities transferred by Dana Gas as a result of the disposal and the related consideration, recorded in "Other Income", is presented below:

	USD mm
Non-current assets	64
Other current assets	6
Current liabilities	(7)
Total carrying amount of net assets disposed	63
Costs on disposal	4
	67
Less: Total consideration	359
Profit on sale of interest	292

Of the total consideration, USD 177 million was received in cash and USD 182 million in the form of shares in MOL (note 13).

(b) Komombo Concession Farmout

In December 2009, Dana Gas Egypt entered into a settlement agreement with KIOEC for reassignment of their 50% interest in the Komombo Concession in Southern Egypt to Dana Gas Egypt. Following completion of this settlement agreement, Dana Gas Egypt farmed out the 50% interest in the Komombo Concession to Sea Dragon on 31 December 2009. Dana Gas Egypt and Sea Dragon will act as joint operators of this concession. The Group recorded a net gain of USD 35 million on this farmout which is included in "Other Income" (note 7).

26 CONTINGENCIES AND COMMITMENTS

Dana Gas Egypt

Dana Gas Egypt has one drilling rig under contract in connection with the Year 2010 budgeted drilling program in Egypt. In the event that Dana Gas Egypt does not proceed with planned drilling with this rig, it 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 2009 related to those contracts is approximately USD 5.6 million which could be reduced by farm-outs to other operators. At year end Dana Gas Egypt had commitments amounting to USD 0.5 million.

In March 2006, Dana Gas Egypt 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% participating interest in each of these Concessions. As agreed under the terms of the acquisition agreement Dana Gas Egypt has paid USD 13 million as a result of the first Government approved plan of Development in the West El Manzala Concession. In addition, Dana Gas Egypt 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. Dana Gas Egypt 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 Authority of its 10 percent (gross) equity interest, 9.5 percent (net) in Block 4 of the Nigeria/Sao Tome. Under the PSC Centurion paid USD 6.8 million being its share of the total signature bonus. Dana Gas was obligated to pay USD 5 million (net) for its share in the minimum expenditure of USD 53 million for the block which has been paid through 2009. This commitment is supported by a performance bond issued by BNP Paribas and supported by Export Development Canada. Dana Gas and another partner have withdrawn from the concession in accordance with the relevant agreements (PSC / JOA) due to operator's decision to drill a third well without approval. The operator has disputed our position.

26 CONTINGENCIES AND COMMITMENTS (Continued)

Pearl Petroleum Company Limited

Dana Gas has incurred over USD 300 million in expenditure to date and commitments, not yet accrued, amount to approximately USD 10 million (40% share) for the development project in the Kurdistan Region of Iraq.

27 SHARE BASED PAYMENT

Share options are granted to Executive directors and to selected employees. Following are the plans which are operated by the Company:

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.

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.

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was AED 0.62 per option (2008: AED 1.09). The significant inputs into the model were average share price of AED 1.1 (2008: AED 2.04), expected option life of 8 years and an annual risk-free interest rate of 3.37% (2008: 4.62%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 3 ½ years.

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

	2009	*2008*
	USD mm	*USD mm*
Expense arising from share-based payment transactions	**2**	2
	2	2

28 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:

	2009		*2008*	
	Revenues USD mm	***Fees for management services USD mm***	*Revenues USD mm*	*Fees for management services USD mm*
Associated companies	**1**	**-**	1	-
Major shareholders	**-**	**1**	-	2
	1	**1**	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:

	2009 USD mm	*2008 USD mm*
Short-term benefits	**10**	6
Stock options	**2**	2
	12	8

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

The Group's principal financial liabilities comprise convertible bonds, decommissioning obligations, trade payables and other 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 foreign currency risk, interest rate risk, price risk, credit risk and liquidity 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 foreign currency risk, as significant portion of the Group's assets, liabilities, revenues and expenses are USD denominated except available for sale financial assets which are denominated in Hungarian Forint (HUF).

At 31 December 2009, if the HUF had weakened/strengthened by 10% against the US$ with all other variables held constant, total comprehensive income for the year would have been US$ 28 million higher/lower, as a result of foreign exchange gains/losses on translation of HUF denominated available-for-sale financial assets.

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk factors (continued)

Interest rate risk
The Group has minimal exposure to interest rate risk on bank deposits and its convertible bonds carry fixed profit rate.

Price Risk
The Group is exposed to equity securities price risk because of investments held by the Group and classified as available-for-sale. The Group is also exposed to commodity price risk however this has been partially mitigated due to fixed pricing agreement in Egypt for sale of Natural gas which constitute majority of the Groups revenue.

The Group's investment in equity of other entities that are publicly traded is listed on Budapest Stock exchange. At 31 December 2009, if the equity price had increased/decreased by 10% with all other variables held constant the Group's comprehensive income for the year would have been US$ 28 million higher/lower.

Credit risk
Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from trade receivables and deposits with banks and financial institutions.

Trade receivables
The majority of Group trade receivables relate to the Egyptian Government and Kurdistan Government, arising from its operations in Egypt and Kurdistan Region of Iraq. The requirement for impairment is analysed at each reporting date on an individual basis for major customers. The calculation is based on actually incurred historical data and the status of the customer. As majority of the Group's trade receivable are from Government entities no impairment was necessitated at this point. The maximum exposure to credit risk at the reporting date is the carrying amount as illustrated in note 16.

Cash deposits
Credit risk from balances with banks and financial institutions is managed by Group's treasury in accordance with the Group policy. Investment of surplus funds is made only with counterparties approved by the Group's Board of Directors. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2009 and 2008 is the carrying amount as illustrated in note 18.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds, trade payables and other 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 2009

	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**	**63**	**1,041**	-	**1,110**
Trade and other payables	-	**127**	-	-	-	**127**
Provisions	-	-	-	**8**	**19**	**27**
	-	**133**	**63**	**1,049**	**19**	**1,264**

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	-	-	-	4	17	21
	-	115	52	1,130	17	1,314

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital risk 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 2009 and the period ended 31 December 2008. Capital comprises share capital, retained earnings, other reserves and equity component of convertible bonds, and is measured at USD 2,035 million as at 31 December 2009 (2008: USD 1,914 million).

30 FAIR VALUE ESTIMATION

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 2009 USD mm	***Fair value 2009 USD mm***	*Carrying amount 2008 USD mm*	*Fair value 2008 USD mm*
Financial assets				
Cash and short term deposits	**213**	**213**	217	217
Financial liabilities				
Convertible bonds	**871**	**871**	856	856

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.

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

The following table presents the Group' assets that are measured at fair value on 31 December 2009:

	Level 1 USD mm	***Level 2 USD mm***	***Level 3 USD mm***	***Total USD mm***
Assets				
Available for sale financial asset				
- Equity securities	283	-	-	283
Financial assets at fair value through profit or loss	-	9	-	9
Total	**283**	**9**	**-**	**292**

30 FAIR VALUE ESTIMATION (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1 and comprises of BSE equity investments classified as available-for-sale.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.