

Dana Gas PJSC and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

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 financial results of the Company, its subsidiaries and joint ventures (together referred to as the “Group”) for the year ended 31 December 2011.

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. The Company has its head office in Sharjah with offices also in Egypt, Saudi Arabia, Bahrain, the Kurdistan Region of Iraq and the United Kingdom

Results for the year ended 31 December 2011

During the year, Dana Gas achieved Gross Revenues of AED 2.53 billion as compared to AED 1.79 billion in 2010; an increase of 42%. This increase in revenue was due to higher production during the year coupled with higher hydrocarbon prices. As a result the company realised a record gross profit of AED 1.33 billion, which was 71% higher than the AED 781 million realised in 2010.

The Group’s average gross production in 2011 grew to 66,200 barrels of oil equivalent per day (boepd), an increase of 19% over last year’s production of 55,500 boepd. This increase was mainly due to production growth in Kurdistan due to the commencement of production from two new LPG trains. Commercial (2P) reported reserves grew to 159 million barrels of oil equivalent (mmboe), an increase of 5% over last year’s reserves of 152 mmboe.

The Group achieved a net profit after tax of AED 506 million during the current year as compared to AED 158 million in 2010. Earnings before interest, tax, depreciation, amortisation and exploration write offs (“EBITDAX”) increased to AED 1.6 billion compared to AED 1 billion in 2010.

Comprehensive income for the year stood at AED 180 million down from AED 276 million recorded in 2010. The main reason for this decline, despite a significant increase in net profits, was the reduction in value of Available for Sale Assets (“AFS” / investment in MOL shares) by AED 326 million during the year. Under the adopted accounting standards, the AFS is marked to prevailing market value and the resulting gain or loss is booked directly into equity. This significant decline in the market value of MOL shares was due to the ongoing European financial crisis.

Liquidity and Financial Resources

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

The Group’s cash and bank balances as at 31 December 2011 stood at AED 411 million (31 December 2010: AED 583 million) of which 84% was held with local banks in the UAE.

DANA GAS PJSC
Report of the Directors

Liquidity and Financial Resources (continued)

During the year the Group collected AED 649 million against receivables in Egypt and Kurdistan. At the year end the Group's trade receivables balance stood at AED 1.74 billion.

Business Update

In line with its outlined strategy, the Group continues to maximise the value of its existing oil and gas assets and projects. However, given the current regional turmoil and global financial crisis (Eurozone debt in particular), Dana Gas' business objective is to preserve and protect the value of its assets for its stakeholders and therefore it continues to balance operating and necessary capital expenditure within the available financial resources.

Group Reserves

The U.K. based advisory firm, Gaffney, Cline & Associates has carried out an independent evaluation of Dana Gas Egypt's and Sharjah Western Offshore hydrocarbon reserves, and following this review, the Group's gross proved reserves (1P) as at 31 December 2011 are estimated to be 88 millions of barrels of oil equivalent (31 December 2010: 89 mmboe). The gross proved and probable reserves (2P) as at 31 December 2011 are estimated to be 159 mmboe (31 December 2010: 152 mmboe). The gross proved, probable and possible reserves (3P) as at 31 December 2011 are estimated to be 277 mmboe (31 December 2010: 253 mmboe).

In 2011, the Gross Proved plus Probable Commercial Reserves (2P) increased to 159 mmboe (2010: 152 mmboe). These 2P reserves give a total reserves addition of 5% (after 2011 production in Egypt) and 15% (before 2011 production in Egypt). This represents a production replacement ratio of 145% for the year.

Dana Gas Egypt

Dana Gas Egypt ended 2011 with production for the full year of operations of 15.5 mmboe i.e. averaging 42,500 boepd (2010: 15.4 mmboe, i.e. averaging 42,300 boepd). A sustained production plateau over the last year was achieved with production commencing from 6 new wells to compensate for the natural decline in production from previously producing wells.

During 2011, Dana Gas drilled 3 exploration and 5 appraisal/development wells. This programme resulted in 3 new pool discoveries, which have been added to the Group's resource base.

During the year the Group collected AED 275 million against receivables in Egypt. At year end the Group's trade receivable balance stood at AED 836 million.

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Report of the Directors

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 significant petroleum (including gas) resources in the Khor Mor and Chemchemal fields. Since then, the focus has been on developing, processing and transporting natural gas from the Khor Mor field including processing and the extraction of LPG and condensate and providing 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 include allowing expansion of electricity generation and to supply natural gas as feedstock and energy for local industries.

The first LPG plant train was commissioned in January 2011 and the second LPG train was commissioned in April 2011 consequently, during 2011, the Group's share of gross production in the Kurdistan Region of Iraq increased to 8.6 mmboe, i.e. averaging 23,700 boepd from 4.8 mmboe, compared to an average of 13,200 boepd in 2010.

As at 31 December 2011, Dana Gas' net investment in Kurdistan exceeds AED 1.3 billion.

During the year the Group collected AED 374 million against receivables in Kurdistan. At year end the Group's trade receivable balance stood at AED 880 million.

UAE Gas Project

The UAE Gas Project to process and transport imported gas continues to await the commencement of gas supplies by the 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. In July 2010, NIOC introduced gas into its completed transmission network and Dana Gas' UGTC pipeline and SajGas processing facilities in Sharjah for commissioning purposes. However, subsequently as it pressured up, NIOC discovered significant leaks in its offshore gas transmission system which it is now rectifying. This repair may take several months. Notwithstanding this, Crescent Petroleum is continuing with international arbitration to seek a ruling on its binding 25 years gas supply contract with NIOC and expects an enforceable decision by the international tribunal in 2012.

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 project entails the engineering, construction and installation of a new unmanned platform, together with 2-3 horizontal gas production wells in approximately 24 meters of water depth. These planned facilities are about 33 km offshore from the Sharjah Hamriyah Free Zone coast line, linked by a new 12" gas and condensate pipeline, to a new onshore gas processing plant to be constructed within the Sharjah Hamriyah Free Zone Area.

In October 2011, the Company appointed Worley Parsons to provide project management consultancy services on the Project. The planned gas production of 60 million scfd is targeted to begin at the end of 2012.

DANA GAS PJSC
Report of the Directors

Egypt Gulf of Suez – Gas Liquids Extraction Plant

The Company, through its subsidiary Danagaz Bahrain, is a 26.4% owner (effective) in Egyptian Bahraini Gas Derivative Company (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 contract for the Gas liquids extraction plant was awarded in June 2009. Financing for this project is in place, construction of the facilities is nearing completion and start up is planned to be achieved in second quarter of 2012.

Gas Cities

Dana Gas has a 50% shareholding in a joint venture company GASCITIES Ltd for the development of a series of “Gas Cities” across the MENASA region.

In 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 Region of Iraq.

Directors

The Directors who served during the period 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
H.H Shaikha Hanadi Al Thani
Mr. Abdulaziz Hamad Aljomaih
Mr. Abdullah Ali Al Majdouie
Mr. Adib Abdullah Al-Zamil
Mr. Khalid Abdul Rahman Saleh Al-Rajhi
Mr. Majid Hamid Jafar
Mr. Nasser 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
14 March 2012



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC

Report on the financial statements

We have audited the accompanying consolidated financial statements of Dana Gas PJSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flow and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), and the applicable provisions of the articles of association of Dana Gas PJSC and the UAE Commercial Companies Law of 1984 (as amended) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 about 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 Directors, as well as evaluating the overall presentation of the consolidated 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 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Emphasis of matters

We draw attention to note 11 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.

We also draw attention to note 20 to the consolidated financial statements which discusses the retirement options available to the Group on the forthcoming maturity of a Sukuk, in light of the challenges in the financial markets and regional turmoil surrounding some of the Group's operations.

Our opinion is not qualified in respect of the above matters.

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.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Signed by
Joseph A. Murphy (Registration No. 492)
For Ernst & Young

Sharjah, United Arab Emirates
14 March 2012

Dana Gas PJSC and Subsidiaries

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011		2010	
		USD mm	AED mm	USD mm	AED mm
Revenue		690	2,529	487	1,785
Royalties		(169)	(619)	(137)	(502)
Net revenue	5	521	1,910	350	1,283
Cost of sales		(47)	(172)	(33)	(121)
Depreciation and depletion	10	(110)	(403)	(104)	(381)
Gross profit		364	1,335	213	781
Investment and finance income	6	3	11	8	29
Other income		1	4	3	11
Provision for impairments	7	-	-	(5)	(18)
Change in fair value of investment property	13	(6)	(22)	(2)	(7)
General and administration expenses		(40)	(147)	(33)	(121)
Finance costs	8	(87)	(319)	(56)	(205)
Exploration expenditure	10	(13)	(48)	(13)	(48)
PROFIT BEFORE INCOME TAX		222	814	115	422
Income tax expense		(84)	(308)	(72)	(264)
PROFIT FOR THE YEAR		138	506	43	158
Basic and diluted earnings per share (USD/AED per share)	9	0.021	0.077	0.006	0.024

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

Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	<i>2011</i>		<i>2010</i>	
	<i>USD mm</i>	<i>AED mm</i>	<i>USD mm</i>	<i>AED mm</i>
Profit for the year	138	506	43	158
Other comprehensive income:				
(Loss)/ gain on available-for-sale financial asset (note 12)	<u>(89)</u>	<u>(326)</u>	<u>32</u>	<u>118</u>
Other comprehensive (loss)/ income for the year	(89)	(326)	32	118
Total comprehensive income for the year	<u>49</u>	<u>180</u>	<u>75</u>	<u>276</u>

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

Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011		2010	
		USD mm	AED mm	USD mm	AED mm
ASSETS					
Non-current assets					
Property, plant and equipment	10	1,032	3,782	1,045	3,828
Intangible assets	11	1,342	4,918	1,355	4,967
Available-for-sale financial asset	12	-	-	315	1,155
Investment property	13	31	114	37	136
		<u>2,405</u>	<u>8,814</u>	<u>2,752</u>	<u>10,086</u>
Current assets					
Inventories	14	53	194	51	187
Trade and other receivables	15	501	1,836	255	935
Due from related parties		-	-	1	3
Available-for-sale financial asset	12	226	829	-	-
Financial assets at fair value through profit or loss	16	10	37	10	37
Cash and cash equivalents	17	112	411	159	583
		<u>902</u>	<u>3,307</u>	<u>476</u>	<u>1,745</u>
TOTAL ASSETS		<u>3,307</u>	<u>12,121</u>	<u>3,228</u>	<u>11,831</u>
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	18	1,801	6,602	1,801	6,600
Statutory reserve		48	176	34	125
Legal reserve		48	176	34	125
Retained earnings		220	806	112	409
Other reserves	19	55	200	142	521
Convertible bonds- equity component		48	176	48	176
		<u>2,220</u>	<u>8,136</u>	<u>2,171</u>	<u>7,956</u>
Attributable to shareholders of the Company		<u>2,220</u>	<u>8,136</u>	<u>2,171</u>	<u>7,956</u>
Non-controlling interest		4	15	3	11
		<u>2,224</u>	<u>8,151</u>	<u>2,174</u>	<u>7,967</u>
Total equity		<u>2,224</u>	<u>8,151</u>	<u>2,174</u>	<u>7,967</u>
LIABILITIES					
Non-current liabilities					
Borrowings	20	25	92	897	3,288
Provisions	21	17	62	17	62
		<u>42</u>	<u>154</u>	<u>914</u>	<u>3,350</u>
Current liabilities					
Borrowings	20	905	3,317	-	-
Trade payables and accruals	22	134	492	140	514
Due to related parties		2	7	-	-
		<u>1,041</u>	<u>3,816</u>	<u>140</u>	<u>514</u>
Total liabilities		<u>1,083</u>	<u>3,970</u>	<u>1,054</u>	<u>3,864</u>
TOTAL EQUITY AND LIABILITIES		<u>3,307</u>	<u>12,121</u>	<u>3,228</u>	<u>11,831</u>

Director
14 March 2012

Director
14 March 2012

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

Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2011

	Notes	2011		2010	
		USD mm	AED mm	USD mm	AED mm
OPERATING ACTIVITIES					
Profit before income tax		222	814	115	422
Adjustments for:					
Depreciation and depletion	10	110	403	104	381
Investment and finance income	6	(3)	(11)	(8)	(29)
Change in fair value of investment property	13	6	22	2	7
Other income/expenses		1	4	-	-
Finance costs	8	87	319	56	205
Exploration expenditure	10	13	48	13	48
Provision for impairments	7	-	-	5	18
Board compensation		(2)	(7)	(2)	(7)
		<u>434</u>	<u>1,592</u>	<u>285</u>	<u>1,045</u>
Changes in working capital:					
Trade and other receivables		(246)	(901)	(101)	(371)
Inventories		(2)	(7)	(5)	(18)
Trade payables and accruals		(6)	(22)	23	85
Due from related parties		1	3	-	-
Due to related parties		2	7	1	3
		<u>183</u>	<u>672</u>	<u>203</u>	<u>744</u>
Income tax paid		(84)	(308)	(72)	(264)
Net cash flows from operating activities		<u>99</u>	<u>364</u>	<u>131</u>	<u>480</u>
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(86)	(316)	(136)	(498)
Expenditure on intangibles	11	(10)	(37)	(34)	(125)
Proceeds from sale of interest in Komombo		-	-	35	128
Investment and finance income received		3	11	7	26
Others		-	-	2	7
		<u>(93)</u>	<u>(342)</u>	<u>(126)</u>	<u>(462)</u>
Net cash used in investing activities		<u>(93)</u>	<u>(342)</u>	<u>(126)</u>	<u>(462)</u>
FINANCING ACTIVITIES					
Proceeds from borrowings		16	59	10	37
Finance costs paid		(69)	(253)	(69)	(253)
Net cash used in financing activities		<u>(53)</u>	<u>(194)</u>	<u>(59)</u>	<u>(216)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(47)</u>	<u>(172)</u>	<u>(54)</u>	<u>(198)</u>
Cash and cash equivalents at the beginning of the year		<u>159</u>	<u>583</u>	<u>213</u>	<u>781</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	<u><u>112</u></u>	<u><u>411</u></u>	<u><u>159</u></u>	<u><u>583</u></u>

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

Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to shareholders of the Company															
	Share capital		Statutory reserve		Legal reserve		Retained earnings		Other reserves		Convertible bonds-equity component		Non-controlling 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 2009	1,637	6,000	30	113	30	113	243	882	107	392	48	176	4	15	2,099	7,691
Profit for the year	-	-	-	-	-	-	43	158	-	-	-	-	-	-	43	158
Other comprehensive income	-	-	-	-	-	-	-	-	32	118	-	-	-	-	32	118
Total comprehensive income for the year	-	-	-	-	-	-	43	158	32	118	-	-	-	-	75	276
Board compensation	-	-	-	-	-	-	(2)	(7)	-	-	-	-	-	-	(2)	(7)
Transfer to reserves	-	-	4	12	4	12	(8)	(24)	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	3	11	-	-	-	-	3	11
Issue of bonus share (note 18)	164	600	-	-	-	-	(164)	(600)	-	-	-	-	-	-	-	-
Loss attributable to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(1)	(4)	(1)	(4)
At 31 December 2010	1,801	6,600	34	125	34	125	112	409	142	521	48	176	3	11	2,174	7,967
Profit for the year	-	-	-	-	-	-	138	506	-	-	-	-	-	-	138	506
Other comprehensive income	-	-	-	-	-	-	-	-	(89)	(326)	-	-	-	-	(89)	(326)
Total comprehensive income for the year	-	-	-	-	-	-	138	506	(89)	(326)	-	-	-	-	49	180
Board compensation	-	-	-	-	-	-	(2)	(7)	-	-	-	-	-	-	(2)	(7)
Transfer to reserves	-	-	14	51	14	51	(28)	(102)	-	-	-	-	-	-	-	-
Share based payment (note 25)	-	-	-	-	-	-	-	-	2	7	-	-	-	-	2	7
Issue of shares (note 25)	-	2	-	-	-	-	-	-	-	(2)	-	-	-	-	-	-
Addition to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	1	4	1	4
At 31 December 2011	1,801	6,602	48	176	48	176	220	806	55	200	48	176	4	15	2,224	8,151

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

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

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, its Subsidiaries and joint ventures 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, Bahrain, Cairo, Kurdistan Region of Iraq and London.

Principal subsidiaries and jointly controlled entities of the Group at 31 December 2011 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	Barbados	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

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment property, available-for-sale financial asset and financial assets at fair value through profit or loss account that have been measured at fair value. The consolidated financial statements are presented in United States Dollars (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 preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011

Improvements to IFRSs (May 2010):

- IFRS 3 Business Combinations - measurement options available for non-controlling interest (NCI) effective 1 July 2010
- IFRS 7 Financial Instruments: Disclosures – collateral and qualitative disclosures
- IAS 1 Presentation of Financial Statements – analysis of other comprehensive income

The impact of the adoption of these standards or interpretations is described below.

IAS 24 Related Party Disclosures (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasise a symmetrical view on related party relationships as well as clarify in which circumstances persons and key management personnel affect related party relationships of an entity. While the adoption of the amendment did not have any current impact on the financial position or performance, or disclosures of the Group, as all required information is currently being appropriately captured and disclosed, it is relevant to the application of the Group's accounting policy in identifying future potential related party relationships.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements; therefore the amendment on the Interpretation had no effect on the financial position, financial performance, stated accounting policy or other disclosures of the Group.

Improvement to IFRS

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each amendment. The adoption of the following amendments did not have any impact on the financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 3 Business Combinations - Measurement of non-controlling interests (NCI): The measurement options available for NCI have been amended. Only components of NCI that constitute a present ownership interest that entitle their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured either at: Fair value or The present ownership instruments' proportionate share of the acquiree's identifiable net assets.

All other components of NCI are to be measured at their acquisition date fair value, unless another measurement basis is required by another IFRS, e.g., IFRS 2.

IFRS 7 Financial Instruments Disclosures: The amendment was intended to simplify the disclosures required, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity has an option to present an analysis of other comprehensive income by item, for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects will have an impact on disclosures, financial position and/or financial performance, when applied at a future date. The Group intends to adopt those standards (where applicable) when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12 (refer below), what remains in IAS 27 is limited to accounting for subsidiaries, jointly arrangements, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12 (refer below), IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. . The amendments become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. *IFRS 10* replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation-Special Purpose Entities.

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. *IFRS 11* supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers.

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Group is yet to assess what impact the adoption of these new standards will have on its financial position and/or performance, disclosures and stated accounting policies.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. *IFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Group is yet to assess what impact the adoption of this new Standard will have on its financial position and/or performance, disclosures and stated accounting policies.

Basis of 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 Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

(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.

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 for convenience of the users of the consolidated financial statement.

(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 recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated income statement 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 other comprehensive income.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 statement of financial position 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 statement of financial position 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 – 25 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 expected period of lease

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

The assets' residual values and useful lives are reviewed 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.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, any impairment is recognised immediately as an expense and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or a cash generating unit (CGU) 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 or CGU's recoverable amount. An asset's or CGU's recoverable amount is the higher of an asset's or CGU'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 in which case, the asset is tested as part of a large CGU to which it belongs. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or CGU 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 or CGU.

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 or CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 statement of financial position date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables'.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(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 statement of financial position 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. Dividend 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, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Investment properties

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

Subsequently investment properties are 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.

Trade and other receivables

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

In the consolidated statement of cash flows, 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 statement of financial position.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

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 a 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.

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 capitalised 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.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

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

Share based payment transactions

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for either equity instruments ("equity settled transactions") or restricted shares.

Equity-settled transaction

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

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

Restricted shares

Service-based restricted shares are granted at no cost to key employees and generally vest one third each year over a three year period from the date of grant. Restricted shares vest in accordance with the terms and conditions established by the Board of Directors and are based on continued service.

The fair value of service-based restricted shares is determined based on the numbers of shares granted and the closing price of the Company's common stock on the date of grant. The cost is being amortized on a straight line method, based on the vesting period.

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, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates if different assumptions were used and different conditions existed.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

- **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 2011 was USD 308 million (2010: USD 308 million).
- **Recoverable value of intangible oil and gas assets:** The Group determines at each statement of financial position 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 such intangibles at 31 December 2011 was USD 170 million (2010: USD 183 million).
- **The Group carries its investment properties at fair value, with changes in fair values being recognised in the consolidated income statement.** The Group engaged a firm of qualified independent property consultant to determine fair value reflecting market conditions as at 31 December 2011.
- **Decommissioning costs:** Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.
- **Units of production depreciation of oil and gas properties:** Oil and gas properties are depreciated using the units of production (UOP) method over total proved reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field. Each items' life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates changes.

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

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 three geographical units.

Year ended 31 December 2011

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Rest of the World USD mm</i>	<i>Total USD mm</i>
Revenue					
External sales net of royalties	5	290	226	-	521
Total revenue net of royalties	<u>5</u>	<u>290</u>	<u>226</u>	<u>-</u>	<u>521</u>
Gross profit	3	166	195	-	364
Investment and finance income					3
Other income					1
Change in fair value of investment property					(6)
General and administration expenses					(40)
Finance costs					(87)
Exploration expenditure					(13)
Profit before income tax					<u>222</u>
Income tax expense					(84)
PROFIT FOR THE YEAR					<u>138</u>
Segment assets as at 31 December 2011	<u>1,505</u>	<u>1,183</u>	<u>619</u>	<u>-</u>	<u>3,307</u>
Segment liabilities as at 31 December 2011	<u>944</u>	<u>129</u>	<u>10</u>	<u>-</u>	<u>1,083</u>
Other segment information					
Capital expenditures:					
Intangible assets	-	10	-	-	10
Property, plant and equipment	<u>15</u>	<u>69</u>	<u>2</u>	<u>-</u>	<u>86</u>
Total	15	79	2	-	96
Depreciation, depletion & amortisation	(2)	(94)	(14)	-	(110)
Change in fair value of investment property	(6)	-	-	-	(6)
Exploration expenditure	-	(13)	-	-	(13)

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

4 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2010

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Rest of the World USD mm</i>	<i>Total USD mm</i>
Revenue					
External sales net of royalties	4	264	82	-	350
Total revenue net of royalties	<u>4</u>	<u>264</u>	<u>82</u>	<u>-</u>	<u>350</u>
Gross Profit	3	134	76	-	213
Investment and finance income					8
Other Income					3
Provision for Impairment					(5)
Change in fair value of investment property					(2)
General and administration expenses					(33)
Finance costs					(56)
Exploration expenditure					(13)
Profit before income tax					115
Income tax expense					(72)
PROFIT FOR THE YEAR					<u>43</u>
Segment assets at 31 December 2010	<u>1,646</u>	<u>1,082</u>	<u>500</u>	<u>-</u>	<u>3,228</u>
Segment liabilities at 31 December 2010	<u>917</u>	<u>114</u>	<u>23</u>	<u>-</u>	<u>1,054</u>
Other segment information					
Capital expenditures:					
Intangible assets	-	34	-	-	34
Property, plant and equipment	<u>12</u>	<u>97</u>	<u>59</u>	<u>-</u>	<u>168</u>
Total	12	131	59	-	202
Depreciation, depletion & amortisation	(1)	(100)	(3)	-	(104)
Provision for impairment	(4)	(1)	-	-	(5)
Change in fair value of investment property	(2)	-	-	-	(2)
Exploration expenditure	-	(13)	-	-	(13)

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

5 NET REVENUE

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Gross sales	685	483
Less: royalties	(169)	(137)
Net sales	516	346
Tariff/ management fee	5	4
Net revenue	<u>521</u>	<u>350</u>

6 INVESTMENT AND FINANCE INCOME

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Profit share from bank deposits	3	7
Fair value gain on financial assets at fair value through profit or loss (note 16)	-	1
	<u>3</u>	<u>8</u>

7 PROVISION FOR IMPAIRMENTS

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Provision for impairment of oil and gas assets	-	5
	<u>-</u>	<u>5</u>

In 2010 provision for impairment was in respect of JDZ – Block 4 oil & gas assets and development cost.

8 FINANCE COSTS

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Finance cost on convertible bonds (note 20)	87	85
Finance cost capitalised	-	(29)
	<u>87</u>	<u>56</u>

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

9 EARNINGS PER SHARE

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

	<i>2011</i>	<i>2010</i>
Earnings:		
Net profit for the year - USD mm	<u>138</u>	<u>43</u>
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	<u>6,602</u>	<u>6,600</u>
EPS (Basic) – USD:	<u>0.021</u>	<u>0.006</u>

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: convertible sukuk, share options and restricted shares. 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.

	<i>2011</i>	<i>2010</i>
Earnings:		
Net profit for the period- USD mm	138	43
Finance cost on convertible Sukuk –USD mm	75	75
	<u>213</u>	<u>118</u>
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	6,602	6,600
Adjustments for:		
Share options / Restricted shares (million) *	11	7
Assumed conversion of convertible Sukuk (million)**	1,908	1,908
Weighted average number of ordinary shares for diluted earnings per share (million)	<u>8,521</u>	<u>8,515</u>

Note: Restricted shares had a dilutive effect on the EPS of the Group, however as the dilution is insignificant it is not disclosed separately.

*As at 31 December 2011 all the stock options issued to employees were out of money, hence no shares have been assumed for calculating diluted earnings per share. Effective 1 July 2010, key management employees are awarded with restricted shares, one third portion of which will vest yearly over a period of 3 years. These restricted shares have been taken into account in the calculation of diluted earnings per share.

**As disclosed in Note 20, 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. The shareholders in the Annual General Meeting on 21 April 2010 approved the issuance of 10% bonus shares, due to which the conversion exchange ratio was reset from 17,343.3 shares to 19,076.6 shares for every USD 10,000 Sukuk Certificate. As at 31 December 2011 the conversion had an anti-dilutive effect on the EPS of the Company.

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

10 PROPERTY, PLANT AND EQUIPMENT

	Freehold land USD mm	Building USD mm	Oil and gas interests 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 2011	13	1	608	96	18	79	564	1,379
Additions	-	1	34	10	5	-	37	87
Transfer from Intangible assets (note 11)	-	-	23	-	-	-	-	23
Transfer from Capital work-in-progress.	1	10	62	234	5	40	(352)	-
Dry hole costs written-off	-	-	(13)	-	-	-	-	(13)
At 31 December 2011	14	12	714	340	28	119	249	1,476
Depreciation/Depletion:								
At 1 January 2011	-	-	299	22	7	6	-	334
Depreciation/depletion charge for the year	-	1	85	15	2	7	-	110
At 31 December 2011	-	1	384	37	9	13	-	444
Net carrying amount:								
At 31 December 2011	14	11	330	303	19	106	249	1,032

Capital Work in Progress comprises:

	USD mm
SajGas Plant and facilities	99
UGTC Pipeline & Related facilities	89
Kurdistan Region of Iraq Project	3
Sharjah Western Offshore	21
EBGDCCO	37
	249

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

10 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land USD mm	Building USD mm	Oil and gas interests 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 2010	13	1	494	93	16	25	529	1,171
Additions	-	-	74	3	2	-	89	168
Transfer from Intangible assets (note 11)	-	-	53	-	-	-	-	53
Transfer from Capital work-in-progress.	-	-	-	-	-	54	(54)	-
Dry hole costs written-off	-	-	(13)	-	-	-	-	(13)
At 31 December 2010	13	1	608	96	18	79	564	1,379
Depreciation/Depletion:								
At 1 January 2010	-	-	206	16	6	2	-	230
Depreciation/depletion charge for the year	-	-	93	6	1	4	-	104
At 31 December 2010	-	-	299	22	7	6	-	334
Net carrying amount:								
At 31 December 2010	13	1	309	74	11	73	564	1,045
Capital Work in Progress comprises:								
	<i>USD mm</i>							
SajGas Plant and facilities	126							
UGTC Pipeline & Related facilities	91							
Kurdistan Region of Iraq Project	309							
Dana Gas Egypt	15							
EBGDCCO	14							
Others	9							
	564							

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

11 INTANGIBLE ASSETS

	<i>Oil and gas interests USD mm</i>	<i>Purchase, transmission, sweetening and sale rights USD mm</i>	<i>Gas processing rights USD mm</i>	<i>Development cost USD mm</i>	<i>Goodwill USD mm</i>	<i>Total USD mm</i>
Cost at 1 January 2011	270	857	7	2	308	1,444
Less: provision for impairment	(87)	-	-	(2)	-	(89)
At 1 January	183	857	7	-	308	1,355
Additions - net	10	-	-	-	-	10
Transfer to property, plant & equipment (note 10)	(23)	-	-	-	-	(23)
At 31 December 2011	170	857	7	-	308	1,342

	<i>Oil and gas interests USD mm</i>	<i>Purchase, transmission, sweetening and sale rights USD mm</i>	<i>Gas processing rights USD mm</i>	<i>Development cost USD mm</i>	<i>Goodwill USD mm</i>	<i>Total USD mm</i>
Cost at 1 January 2010	289	857	7	2	308	1,463
Less: Provision for impairment	(84)	-	-	-	-	(84)
At 1 January	205	857	7	2	308	1,379
Additions	34	-	-	-	-	34
Transfer to Property, plant & equip.	(53)	-	-	-	-	(53)
Provision for impairment (note 7)	(3)	-	-	(2)	-	(5)
At 31 December 2010	183	857	7	-	308	1,355

(a) Oil and Gas Interests

Oil and gas interests of USD 170 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 Lease – This development lease is held with a 100% working interest and represents approximately 26% of current production in Dana Gas Egypt. El Wastani production includes both gas and associated gas liquids. This lease has 13,017 acres of land included within its boundary 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 30 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, nine development leases have been created from this exploration concession and produce both natural gas and associated liquids representing approximately 64% of Dana Gas Egypt current volumes. The Company has applied for a tenth development lease to cover the recently discovered South Abu El Naga field.

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

11 INTANGIBLE ASSETS (continued)

(a) Oil and Gas Interests (continued)

- 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 30 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 and two development leases have been granted to date. Only one is producing yet (Sama) and contributes approximately 9% of Dana Gas Egypt current volumes.
- Kom Ombo Exploration Concession – Dana Gas Egypt holds a 50% working interest in this Concession, which includes 5,654,727 acres of exploration land with the balance of 50% interest held by Sea Dragon Energy Limited (“Sea Dragon”). To date one development lease has been created from this exploration concession and produces approximately 1% of Dana Gas Egypt current volumes and produces only oil.

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. Dana Gas and another partner have withdrawn from the Concession in accordance with the relevant agreements (PSC/JOA) due to the operator’s decision to drill a third well without approval. The operator has initiated arbitration against the company and the proceedings are ongoing.
- 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.

During the year, Dana Gas entered into an agreement with Candax Energy Inc. (“Candax”) whereby Dana Gas agreed to relinquish its rights to participate in future wells targeting the Deep Triassic Zone. As compensation for Dana Gas relinquishing its rights, Candax agreed to forego its claim for the payment of certain taxes and will make a one off payment in the event that a commercial discovery is made in the Deep Triassic Zone

Management has carried out a review of each of the oil and gas interests at 31 December 2011 and believes that no change in impairment provision of USD 87 million pertaining to JDZ Block-4, Tunisia and Komombo is required.

(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. In July 2010, NIOC introduced gas into its completed transmission network and Dana Gas’ UGTC pipeline and Saj gas processing facilities in Sharjah for commissioning purposes. However, subsequently as it pressured up, NIOC discovered significant leaks in its offshore gas transmission system which it is now rectifying. This repair may take several months. Notwithstanding this, Crescent Petroleum has initiated international arbitration to seek a ruling on its binding 25 years gas supply contract with NIOC and expects an enforceable decision by the international tribunal in 2012. 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 2011. 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.

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

11 INTANGIBLE ASSETS (continued)

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 2011 for the impairment testing of its individual oil & gas investments.

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

Sensitivity to changes in assumptions

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

(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% (2010: 10%). Cash flows are generated using forecasted production, capital and operating cost data over the expected life of each accumulation.

12 AVAILABLE-FOR-SALE FINANCIAL ASSET

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
At 1 January	315	283
Change in fair value	(89)	32
At 31 December	<u>226</u>	<u>315</u>

The Group holds 3,161,116 ordinary shares in MOL received as consideration for the disposal of an interest in Pearl Petroleum in 2009. These shares are listed on the Budapest Stock Exchange and have been fair valued with reference to published price quotation at 31 December 2011.

Dana Gas PJSC and Subsidiaries

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As at 31 December 2011

13 INVESTMENT PROPERTY

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

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Balance at 1 January	37	39
Change in fair value	(6)	(2)
Balance at 31 December	<u>31</u>	<u>37</u>

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 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 decline in property values generally and has therefore resulted in a decrease in the fair value by USD 6 million (31 December 2010: decrease of USD 2 million) which was charged to the consolidated income statement.

14 INVENTORIES

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Spares and consumables	65	64
Less: provision for impairment of inventory	(12)	(13)
	<u>53</u>	<u>51</u>

15 TRADE AND OTHER RECEIVABLES

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Trade receivables	475	218
Prepaid expenses	1	1
Other receivables	31	45
Less: provision for impairment of other receivables	(6)	(9)
	<u>501</u>	<u>255</u>

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

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

15 TRADE AND OTHER RECEIVABLES (continued)

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

	<i>Total USD mm</i>	<i>Neither past due nor impaired USD mm</i>	<i>Past due but not impaired</i>				
			<i><30 days USD mm</i>	<i>30-60 days USD mm</i>	<i>61-90 days USD mm</i>	<i>91-120 days USD mm</i>	<i>>120 days USD mm</i>
2011	475	108	28	48	70	9	212
2010	218	69	17	7	9	13	103

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2011 USD mm</i>	<i>2010 USD mm</i>
Balance at 1 January	10	9
Change in fair value	-	1
Balance at 31 December	<u>10</u>	<u>10</u>

17 CASH AND CASH EQUIVALENTS

	<i>2011 USD mm</i>	<i>2010 USD mm</i>
Cash at bank and on hand		
- Local Banks within UAE	15	17
- Foreign Banks outside UAE	18	9
Short term deposits		
- Local Banks within UAE	79	133
	<u>112</u>	<u>159</u>

Cash at bank earns 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 earns profit at the respective short-term deposit rates. The fair value of cash and short-term deposits is USD 112 million (2010: USD 159 million). The effective profit rate earned on short term deposits ranged between 1.25% to 4.5% (2010: between 2.5% and 6.1%) per annum. As at 31 December 2011, 84% of cash and cash equivalents were held with UAE banks.

18 SHARE CAPITAL

	<i>2011 USD mm</i>	<i>2010 USD mm</i>
<i>Authorised:</i>		
8,396,001,300 common shares of AED 1 each (USD 0.2728 each)		
<i>Issued and fully paid up:</i>		
6,602,001,300 common shares of AED 1 each (USD 0.2728 each)	<u>1,801</u>	<u>1,801</u>

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 SHARE CAPITAL (continued)

At the Annual General Meeting held on 21 April 2010, the shareholders approved a 10% bonus issue amounting to USD 164 million (AED 600 million). Consequently the Company's paid up share capital has increased to AED 6.6 billion comprising of 6.6 billion shares of AED 1 each (2010: 6.6 billion shares of AED 1 each).

During the year, the Company issued 2 million fully paid up shares to its employees under the Restricted share scheme (note 25), consequently the authorised share capital was also increased by 2 million shares.

19 OTHER RESERVES

	<i>Share Option USD mm</i>	<i>Fair value reserve USD mm</i>	<i>Total USD mm</i>
At 1 January 2010	6	101	107
Value of employee services (note 25)	3	-	3
Change in fair value of available-for-sale financial assets (note 12)	-	32	32
	<hr/>	<hr/>	<hr/>
At 31 December 2010	9	133	142
Value of employee services (note 25)	2	-	2
Change in fair value of available-for-sale financial assets (note 12)	-	(89)	(89)
	<hr/>	<hr/>	<hr/>
At 31 December 2011	11	44	55
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20 BORROWINGS

	<i>2011 USD mm</i>	<i>2010 USD mm</i>
Non-current		
Convertible bonds	-	887
Bank borrowings	25	10
	<hr/>	<hr/>
	25	897
	<hr/>	<hr/>
Current		
Convertible bonds	904	-
Bank borrowings	1	-
	<hr/>	<hr/>
	905	-
	<hr/>	<hr/>
Total borrowings	930	897
	<hr/> <hr/>	<hr/> <hr/>

a) 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. In 2008, Dana Gas repurchased convertible sukuk with a nominal value of USD 80 million. At the Annual General Meeting held on 21 April 2010, the shareholders approved a 10% bonus issue and consequently conversion ratio for Sukuk was increased from 17,343.3 shares to 19,076.7 shares for every USD 10,000 Sukuk certificate (i.e. an effective conversion price reset at AED 1.926 per share).

Dana Gas PJSC and Subsidiaries

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As at 31 December 2011

20 BORROWINGS (continued)

a) CONVERTIBLE BONDS (continued)

The Sukuk is secured against the shares of Dana Gas LNG Ventures Ltd., SajGas and UGTC in accordance with the principles of Islamic Shariah.

The fair value of the liability component, included in 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.

As noted above the Sukuk is due to mature in October 2012. The Board of Directors has considered the future operating and capital cash flow requirements for the Company, and is fully confident of meeting the Company's licence obligations despite the challenges in the international financial markets and regional turmoil surrounding some of the Company's operations. Meanwhile, with regard to the Sukuk and its maturity in the Fourth Quarter, the Board considers that a number of retirement options are available to it in the light of the above uncertainties.

The convertible bond recognised in the statement of financial position is calculated as follows:

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Liability component as at 1 January	887	871
Finance cost (note 8)	87	85
Profit paid	(58)	(58)
	<u>916</u>	<u>898</u>
Current portion of profit classified under trade payables and accruals (note 22)	(12)	(11)
	<u>904</u>	<u>887</u>

b) BANK BORROWINGS

On 22 April 2010, EBGDCO (Joint Venture Company) entered into a facility agreement with Commercial International Bank (Egypt) S.A.E. "CIB" for financing USD 66.5 million of the then investment cost of project of establishment of Gas Liquids extraction plant at Ras Shukeir. The facility matures in 12 years and carries variable rate of LIBOR + Margin during the repayment period. In order to finance increase in investment costs, the company, on 20 December 2011, executed a supplemental facility agreement with CIB for additional USD 20 million. This supplemental facility matures in 4 years from the date of first drawdown. Danagaz WLL share of the draw downs is approx USD 26 million as at 31 December 2011.

As continuing security for the performance and full payment of liabilities under the Facility Agreement and supplemental facility agreement, Danagaz W.L.L. has pledged its entire share in share capital of EBGDCO in favour of CIB.

Dana Gas PJSC has given an undertaking "not to dispose" of its equity stake in Danagaz WLL except to a qualified investor approved by CIB, Egypt and not create any lien/pledge of its equity stake in Danagaz WLL. This facility is non-recourse to Dana Gas PJSC. The Pledge of Danagaz shares and the undertaking from Dana Gas PJSC as stated above will be released by the bank upon the Project achieving Project and Financial completion.

21 PROVISIONS

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Asset decommissioning obligation	15	15
Employee's end of service benefits	2	2
	<u>17</u>	<u>17</u>

Dana Gas PJSC and Subsidiaries

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22 TRADE PAYABLES AND ACCRUALS

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Trade payables	70	67
Accrued expenses and other payables	52	62
Profit accrued on convertible bonds (note 20)	12	11
	<u>134</u>	<u>140</u>

23 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 Chemchemical 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.

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 satisfactory outcome which should not have a material adverse impact on the state of the Pearl Petroleum or the carrying values of its assets.

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

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Assets:		
Long-term assets	351	363
Current assets	268	137
Total Assets	<u>619</u>	<u>500</u>
Liabilities:		
Current liabilities	11	23
Net Assets	<u>608</u>	<u>477</u>
Income	226	82
Operating Cost	(29)	(6)
Gross Profit	<u>197</u>	<u>76</u>

Dana Gas PJSC and Subsidiaries

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23 INTEREST IN JOINT VENTURE (continued)

(b) UGTC / Emarat Joint Venture

The Group has a 50% interest in the UGTC / Emarat jointly controlled operations which owns one of the largest gas pipeline in the UAE (48 inch diameter) with a installed 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:

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Assets:		
Long-term assets	23	23
Current assets	11	8
Total Assets	<u>34</u>	<u>31</u>
Liabilities:		
Current liabilities	1	-
Net Assets	<u>33</u>	<u>31</u>
Income	4	4
Operating cost	(2)	(2)
Net profit	<u>2</u>	<u>2</u>

(c) EBGDCO:

The Group through its subsidiary Danagaz WLL has a 40% equity interest in joint venture company EBGDCO involved in construction and operation of gas liquid extraction plant in Egypt capable of processing 150 MMscfd of natural gas. Apart from Danagaz WLL, EGAS and APICORP have equity interest in EBGDCO, a Company registered in Egypt with its principal objective of fractionation of natural gas derivatives as well as marketing and selling these derivatives. The following amount represents the Group's subsidiary share in the assets & liabilities of the joint venture.

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Assets:		
Long-term assets	38	14
Current assets	7	6
Total Assets	<u>45</u>	<u>20</u>
Liabilities:		
Bank Borrowings	26	10
Current liabilities	5	1
Total Liabilities	<u>31</u>	<u>11</u>
Net Assets	<u>14</u>	<u>9</u>

Dana Gas PJSC and Subsidiaries

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24 CONTINGENCIES AND COMMITMENTS

(a) Dana Gas Egypt

Dana Gas Egypt has contracted one drilling rig for six months ending 29 February 2012 and in the event that Dana Gas Egypt does not proceed with planned drilling with this rig, it would be obligated to pay the rig operator a variable stand by rate based on days not utilised under the contract.

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 said 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.

(b) Nigeria / Sao Tome

In 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. This was later assigned to Dana Gas PJSC in 2009. 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 initiated arbitration against the company and the proceedings are ongoing.

(c) Sharjah Western Offshore

Capital expenditure committed at the end of the reporting period but not yet incurred amounted to USD 18 million.

(d) EBGDCO

EBGDCO through its banker CIB has issued a letter of credit to a supplier, out of which an amount of USD 5 million (DG Share: USD 2 million) is outstanding as at 31 December 2011 (2010: USD 14 million (DG Share: USD 4 million)).

25 SHARE BASED PAYMENT

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

Pioneer Grant – Share Option Plan

The Pioneer Grant is a one-time option grant aimed to recognise 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.

Key Employee Long Term Incentive Plan (“LTIP”) – Share Option Plan

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.

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As at 31 December 2011

25 SHARE BASED PAYMENT (continued)

Key Employee Long Term Incentive Plan ("LTIP") – Share Option Plan (continued)

The weighted average fair value of options granted in 2009 was determined using the Black-Scholes valuation model - 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 was based on statistical analysis of daily share prices.

Restricted Shares

The Group has made restricted share awards of 6 million shares (2010: 7 million shares) to key employees during the year. Awards under this plan are generally subject to vesting over time, contingent upon continued employment and to restriction on sale, transfer or assignment until the end of a specified period, generally over one to three years from date of grant. All awards may be cancelled if employment is terminated before the end of the relevant restriction period. The Group determines fair value of restricted shares unit based on the numbers of unit granted and the grant date fair value.

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

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Expense arising from share-based payment transactions	2	3
	<u>2</u>	<u>3</u>

26 RELATED PARTY DISCLOSURES

Related parties represent joint ventures, 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 consolidated income statement are as follows:

	<i>2011</i>		<i>2010</i>	
	<i>Revenues</i> <i>USD mm</i>	<i>Fees for</i> <i>management</i> <i>services</i> <i>USD mm</i>	<i>Revenues</i> <i>USD mm</i>	<i>Fees for</i> <i>management</i> <i>services</i> <i>USD mm</i>
Joint ventures	1	-	1	-
Major shareholders	-	1	-	-
	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>

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

Compensation of key management personnel

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

	<i>2011</i> <i>USD mm</i>	<i>2010</i> <i>USD mm</i>
Short-term benefits	10	7
Stock options	2	2
	<u>12</u>	<u>9</u>

Dana Gas PJSC and Subsidiaries

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27 INCOME TAX EXPENSE

The Company is not liable to tax in its primary jurisdiction. The income tax expense relates to its Egypt operations which are taxed at an average tax rate of 40.55% (2010: 40.55%).

The effective tax rate was 35% (2010: 55%).

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

The Group's principal financial liabilities comprise borrowings, 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.

(a) Foreign currency risk

The Group is only exposed to material foreign currency risks in relation to available for sale financial assets which are denominated in Hungarian Forint (HUF), as a significant portion of the Group's asset, liabilities, revenues and expenses are USD denominated.

At 31 December 2011, if the HUF had strengthened/weakened by 10% against the USD with all other variables held constant, total comprehensive income for the year would have been USD 23 million higher/lower (2010: USD 32 million), as a result of foreign exchange gains/losses on translation of HUF denominated available-for-sale financial assets.

(b) Interest rate risk

The Group has minimal exposure to interest rate risk on bank deposits and long term borrowings which are obtained at variable rates by one of the Group's subsidiary to finance its project. The Group's Convertible bonds carry fixed profit rate and hence is not exposed to interest rate risk.

(c) Price risk

The Group is exposed to equity securities price risk in relation to the investments held by the Group and classified as available-for-sale financial assets. The Group's investment is in equity of an entity which is publicly traded on Budapest Stock exchange. As at 31 December 2011, 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 USD 23 million higher/lower (2010: USD 32 million).

(d) 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 bank balances.

(i) Trade receivables

The trade receivables arise from its operations in UAE, Egypt and Kurdistan Region of Iraq. The requirement for impairment is analysed at each reporting date on an individual basis for major customers. As majority of the Group's trade receivable are from Government related 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 15.

(ii) Bank balances

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 in respect of bank balances as at 31 December 2011 is the carrying amount as illustrated in note 17.

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk factors (continued)

(e) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings, 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 2011

	<i>On demand</i> <i>USD mm</i>	<i>Less than 3 months</i> <i>USD mm</i>	<i>3 to 12 months</i> <i>USD mm</i>	<i>1 to 5 years</i> <i>USD mm</i>	<i>>5 years</i> <i>USD mm</i>	<i>Total</i> <i>USD mm</i>
Borrowings	-	6	973	14	17	1,010
Trade and other payables	-	134	-	-	-	134
Provisions	-	-	2	6	22	30
	<u>-</u>	<u>140</u>	<u>975</u>	<u>20</u>	<u>39</u>	<u>1,174</u>

Year ended 31 December 2010

	<i>On demand</i> <i>USD mm</i>	<i>Less than 3 months</i> <i>USD mm</i>	<i>3 to 12 months</i> <i>USD mm</i>	<i>1 to 5 years</i> <i>USD mm</i>	<i>>5 years</i> <i>USD mm</i>	<i>Total</i> <i>USD mm</i>
Borrowings	-	6	63	978	-	1,047
Trade and other payables	-	140	-	-	-	140
Provisions	-	-	-	8	21	29
	<u>-</u>	<u>146</u>	<u>63</u>	<u>986</u>	<u>21</u>	<u>1,216</u>

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 years ended 31 December 2011 and 31 December 2010. Capital comprises share capital, retained earnings, other reserves and equity component of convertible bonds, and is measured at USD 2,124 million as at 31 December 2011 (2010: USD 2,103 million).

29 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:

	<i>Carrying amount</i> <i>2011</i> <i>USD mm</i>	<i>Fair value</i> <i>2011</i> <i>USD mm</i>	<i>Carrying amount</i> <i>2010</i> <i>USD mm</i>	<i>Fair value</i> <i>2010</i> <i>USD mm</i>
<i>Financial assets</i>				
Available for sale financial asset	226	226	315	315
Trade and other receivables	499	499	254	254
Cash and short term deposits	112	112	159	159
<i>Financial liabilities</i>				
Borrowings	930	930	897	897
Trade and other payables	134	134	140	140

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29 FAIR VALUE ESTIMATION (continued)

The fair value of bank borrowings is the amortised cost determined as the present value of discounted future cash flows using the effective interest rate.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 2011:

	<i>Level 1</i> <i>USD mm</i>	<i>Level 2</i> <i>USD mm</i>	<i>Level 3</i> <i>USD mm</i>	<i>Total</i> <i>USD mm</i>
Assets				
Available for sale financial asset				
- Equity securities	226	-	-	226
Financial assets at fair value through profit or loss	-	10	-	10
Total	<u>226</u>	<u>10</u>	<u>-</u>	<u>236</u>

The following table presents the Group' assets that are measured at fair value on 31 December 2010:

	<i>Level 1</i> <i>USD mm</i>	<i>Level 2</i> <i>USD mm</i>	<i>Level 3</i> <i>USD mm</i>	<i>Total</i> <i>USD mm</i>
Assets				
Available for sale financial asset				
- Equity securities	315	-	-	315
Financial assets at fair value through profit or loss	-	10	-	10
Total	<u>315</u>	<u>10</u>	<u>-</u>	<u>325</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position 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 Budapest Stock Exchange (BSE) equity investments classified as available-for-sale financial asset.

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.

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30 FINANCIAL INSTRUMENTS BY CATEGORY

	<i>Loans & receivables</i>	<i>Assets at fair value through the profit and loss</i>	<i>Available- for-sale financial asset</i>	<i>Total</i>
	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>
31 December 2011				
Assets as per Statement of Financial Position				
Available-for-sale financial assets	-	-	226	226
Trade and other receivables excluding pre-payments	499	-	-	499
Financial assets at fair value through profit or loss	-	10	-	10
Cash and cash equivalents	112	-	-	112
Total	611	10	226	847

	<i>Liabilities at fair value through the profit and loss</i>	<i>Derivatives used for hedging</i>	<i>Other financial liabilities at amortised cost</i>	<i>Total</i>
	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>
31 December 2011				
Liabilities as per Statement of Financial Position				
Borrowings	-	-	930	930
Provisions	-	-	17	17
Trade and other payable excluding statutory liabilities	-	-	134	134
Total	-	-	1,081	1,081

	<i>Loans & receivables</i>	<i>Assets at fair value through the profit and loss</i>	<i>Available- for-sale financial asset</i>	<i>Total</i>
	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>
31 December 2010				
Assets as per Statement of Financial Position				
Available-for-sale financial assets	-	-	315	315
Trade and other receivables excluding pre-payments	254	-	-	254
Financial assets at fair value through profit or loss	-	10	-	10
Cash and cash equivalents	159	-	-	159
Total	413	10	315	738

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30 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	<i>Liabilities at fair value through the profit and loss USD mm</i>	<i>Derivatives used for hedging USD mm</i>	<i>Other financial liabilities at amortised cost USD mm</i>	<i>Total USD mm</i>
31 December 2010				
Liabilities as per Statement of Financial Position				
Borrowings	-	-	897	897
Provisions	-	-	17	17
Trade and other payable excluding statutory liabilities	-	-	140	140
Total	<u>-</u>	<u>-</u>	<u>1,054</u>	<u>1,054</u>