Dana Gas PJSC and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

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 2012.

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 utilisation of gas as feedstock and fuel to the petrochemical, industrial and the power sectors. Since its establishment, the Company has grown from a small core team at its head office in Sharjah to a regional as well as international natural gas company with offices in Sharjah, Egypt, Saudi Arabia, Bahrain, the Kurdistan Region of Iraq and in the United Kingdom.

Results for the year ended 31 December 2012

During the year, Dana Gas recorded net profit growth of 20% in 2012, increasing to AED 605 million from AED 506 million in 2011, reflecting higher realised hydrocarbon prices and optimised cost management in 2012.

Comprehensive income for the year stood at AED 711 million up from AED 180 million recorded in 2011 as a result of an increase in the value of Available for Sale Assets ("AFS"/ investment in MOL shares) by AED 106 million during the year (2011: Decrease in value of AFS of AED 326 million). Under the adopted accounting policy the AFS is marked to prevailing market value and the resulting gain or loss is booked directly into equity.

Gross revenues were slightly lower at AED 2.3 billion compared to AED 2.5 billion in 2011 reflecting the conservative cash policy implemented by the Company in Egypt, given the delays in collection of receivables, and also temporary suspension of Liquefied Petroleum Gas ("LPG") production in Kurdistan Region of Iraq following the damage to the LPG loading bay by a third party LPG tanker accident in June 2012. Revenues are expected to increase once new discoveries in Egypt are brought to production and the Kurdistan LPG loading bay is repaired by Q2 2013.

The Group ended the year with an average production of 59,800 barrels of oil equivalent per day (boepd), a decrease of 10% compared to last year's production of 66,200 boepd.

Earnings before interest, tax, depreciation, amortization and exploration write offs ("EBITDAX") decreased to AED 1.50 billion compared to AED 1.59 billion in 2011.

Liquidity and Financial Resources

Net cash generated from operations was AED 655 million. In 2012, the Company collected AED 1.1 billion from its share of receivables in Egypt and Kurdistan Region of Iraq. The Company's cash balance improved by 47% to AED 605 million by end of 2012 compared to AED 411 million.

Sukuk Update

The recent agreement on the Company's Sukuk reached with the Ad Hoc Committee of Sukukholders, which is subject to shareholder approval, will place Dana Gas on a stronger financial footing in the interests of all stakeholders. The Company is currently pursuing the steps necessary for seeking the consent of the shareholders, existing Sukuk holders and the approvals of the regulatory authorities, in order to successfully complete the Transaction during the second quarter of 2013.

Business Update

In line with its outlined strategy, the Dana Gas Group continues to maximise the value of its existing oil and gas assets and projects, while pursuing growth through a strategy of targeted acquisitions and new business development across the gas value chain. We continue to balance our capital expenditure with the available sources of finance to ensure we maintain a robust statement of financial position.

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 2012 are estimated to be 86 millions of barrels of oil equivalent (31 December 2011: 88 mmboe). The gross proved and probable reserves (2P) as at 31 December 2012 are estimated to be 147 mmboe (31 December 2011: 159 mmboe). The gross proved, probable and possible reserves (3P) as at 31 December 2012 are estimated to be 256 mmboe (31 December 2011: 277 mmboe).

Egypt E&P operations

Dana Gas Egypt ended 2012 with production for the full year of operations of 11.8 MMBOE i.e. averaging 32,200 boepd (2011: 15.5 MMBOE, i.e. averaging 42,500 boepd). Production declined during the year as pressure depleted from older wells and new investments were kept to a minimum in 2011 and the first half of 2012 given the delays in collection of outstanding receivables. Production is expected to increase as compression facilities and new production wells are added and when new fields are brought on stream.

During 2012, the Group conducted a seven-well exploration program, with a 57% success rate. Out of these seven exploration wells, five were drilled in the Nile Delta concession, with West Sama-1, Balsam-1 and Alyam-1 adding new resources whilst two exploration wells were drilled in the Komombo concession, with West Al Baraka-1 adding new resources.

On 28 December 2012 the third and final exploration term of the West Qantara Concession ended and the Egyptian Natural Gas Holding Company "EGAS" submitted a notice of relinquishment of the concession area except for the areas which are already converted or proposed to be converted into development leases.

Egypt E&P operations (continued)

In respect of the West Manzala Concession, the Company has been granted an extension of upto six months to complete the drilling and testing of the Begonia-1 well. In case of either discovering commercial gas or reaching negative results, the Company will have to withdraw from the concession areas that have not been transformed into development leases or those which have not been presented by the Company to be transformed into a development lease.

During 2012, the Group collected AED 596 million against receivables in Egypt. At year end, the trade receivables balance stood at AED 866 million (31 December 2011: AED 836 million).

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 resources are planned to include allowing expansion of electricity generation and to supply natural gas as feedstock and energy for local industries.

During 2012, the group's gross production in the Kurdistan Region of Iraq (Dana Gas 40% share) was 10.0 MMBOE, i.e. averaging 27,500 boepd (2011: 8.6 MMBOE, averaging 23,700 boepd).

The LPG loading bay at the Kor Mor LPG processing facility was damaged as a result of an explosion of a LPG tanker belonging to a local trader on 22 June 2012 and therefore there has been no LPG production or sales thereafter. LPG production and sales are expected to resume in the second quarter of 2013 once the damaged facilities are reconstructed.

During 2012, the Group collected AED 525 million against receivables in Kurdistan. At year end, the Group's share of trade receivables balance stood at AED 1,298 million (31 December 2011: 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 needs rectification. 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 2013.

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.

On 21 November 2012, Dana Gas signed a set of agreements with the Sharjah and Ajman Governments to jointly develop the shared field located around 40 kilometers off the two coasts. These included a unitisation agreement for management of the shared field, gas sales and purchase agreements and the joint operating agreement.

Base plan for 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.

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 Natural Gas Liquids Extraction Plant in Egypt in partnership with the Egyptian National Gas Company (EGAS) and the Arab Petroleum Investments Corporation (APICORP). The construction of the Project has since been completed, with start-up happening in August 2012.

The plant began operating commercially on 1 October 2012. In its first 3 months, the plant has processed a combined 12,340 metric tonnes of Propane (10,500) and Butane (1,840). The plant has a capacity to process 150 MMscfd of gas and it is currently processing at an average of 75 MMscfd. In future, it is expected that the gas supplies will increase through tie-ins with other gas fields in the vicinity.

DANA GAS PJSC
Report of the Directors

Directors
The Directors who served during the year were:

H.H. Sheikh Ahmed Bin Sultan Al-Qasimi, Honorary Chairman
Dr. Adel Khalid Al-Sabeeh, Chairman (From 7 June 2012)
Dr. Tawfeeq Abdulrahman Almoayed, Deputy Chairman (From 7 June 2012)
Mr. Hamid Dhiya Jafar, Chairman (to 7 June 2012)
Mr. Ahmed Rashid Al Arbeed, Chief Executive Officer (to 30 September 2012)
Mr. Rashid Saif Al-Jarwan, Acting Chief Executive Officer (From 1 October 2012)
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 (to 7 June 2012)
Mr. Khalid Abdul Rahman Saleh Al-Rajhi
Mr. Majid Hamid Jafar
Mr. Nasser Al Nowais
Mr. Rashad Mohammed Al-Zubair
Mr. Said Arrata
Mr. Varoujan Nerguizian
Mr. Ziad Abdulla Ibrahim Galadari

The following Directors were appointed at the Annual General Meeting of the Company held on 7 June 2012.

Mr. Ahmed Al Midfa
Mr. Salah Al Qahtani

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

13 March 2013

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC

Report on the financial statements

We have audited the accompanying consolidated financial statements of Dana Gas PJSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows 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.

Auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC (continued)

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

(i) 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; and

(ii) We also draw attention to note 20 to the consolidated financial statements which discusses the refinancing of the Sukuk which matured in October 2012.

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 Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the Articles of Association of Dana Gas PJSC have occurred during the year which would have had a material effect on the business of Dana Gas PJSC or on its financial position.

Ernst + Young

Signed by
Anthony O'Sullivan
Registration No. 687
For Ernst & Young

Sharjah, United Arab Emirates
13 March 2013

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

	Note	2012 USD mm	2012 AED mm	2011 USD mm	2011 AED mm
Revenue		**636**	**2,331**	690	2,529
Royalties		**(136)**	**(499)**	(169)	(619)
Net revenue	5	**500**	**1,832**	521	1,910
Cost of sales		**(54)**	**(198)**	(47)	(172)
Depreciation and depletion	10	**(89)**	**(326)**	(110)	(403)
Gross profit		**357**	**1,308**	364	1,335
Investment and finance income	6	**14**	**52**	3	11
Other income		**-**	**-**	1	4
Impairment	7	**(9)**	**(33)**	-	-
Change in fair value of investment property	12	**(3)**	**(11)**	(6)	(22)
General and administration expenses		**(36)**	**(132)**	(40)	(147)
Finance costs	8	**(86)**	**(315)**	(87)	(319)
Exploration expenses	10	**(9)**	**(33)**	(13)	(48)
PROFIT BEFORE INCOME TAX		**228**	**836**	222	814
Income tax expense		**(63)**	**(231)**	(84)	(308)
PROFIT FOR THE YEAR		**165**	**605**	138	506
Basic and diluted earnings per share (USD/AED per share)	9	**0.025**	**0.092**	0.021	0.077

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012		*2011*	
	USD mm	*AED mm*	*USD mm*	*AED mm*
Profit for the year	**165**	**605**	138	506
Other comprehensive income:				
Gain/ (loss) on available-for-sale financial asset (note 15)	**29**	**106**	(89)	(326)
Other comprehensive income for the year	**29**	**106**	(89)	(326)
Total comprehensive income for the year	**194**	**711**	49	180

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 USD mm	2012 AED mm	2011 USD mm	2011 AED mm
ASSETS					
Non-current assets					
Property, plant and equipment	10	**985**	**3,610**	1,032	3,782
Intangible assets	11	**1,353**	**4,959**	1,342	4,918
Investment property	12	**28**	**103**	31	114
		2,366	**8,672**	2,405	8,814
Current assets					
Inventories	13	**54**	**198**	53	194
Trade and other receivables	14	**670**	**2,456**	501	1,836
Available-for-sale financial asset	15	**255**	**935**	226	829
Financial assets at fair value through profit or loss	16	**10**	**37**	10	37
Cash and cash equivalents	17	**165**	**605**	112	411
		1,154	**4,231**	902	3,307
TOTAL ASSETS		**3,520**	**12,903**	3,307	12,121
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	18	**1,801**	**6,602**	1,801	6,602
Statutory reserve		**65**	**238**	48	176
Legal reserve		**65**	**238**	48	176
Retained earnings		**349**	**1,280**	220	806
Other reserves	19	**85**	**310**	55	200
Convertible bonds- equity component		**48**	**176**	48	176
Attributable to shareholders of the Company		**2,413**	**8,844**	2,220	8,136
Non-controlling interest		**4**	**15**	4	15
Total equity		**2,417**	**8,859**	2,224	8,151
LIABILITIES					
Non-current liabilities					
Borrowings	20	**29**	**106**	25	92
Provisions	21	**14**	**51**	17	62
		43	**157**	42	154
Current liabilities					
Borrowings	20	**922**	**3,380**	905	3,317
Trade payables and accruals	22	**138**	**507**	134	492
Due to related parties		**-**	**-**	2	7
		1,060	**3,887**	1,041	3,816
Total liabilities		**1,103**	**4,044**	1,083	3,970
TOTAL EQUITY AND LIABILITIES		**3,520**	**12,903**	3,307	12,121

Director
13 March 2013

Director
13 March 2013

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Note	2012 USD mm	2012 AED mm	2011 USD mm	2011 AED mm
OPERATING ACTIVITIES					
Profit before income tax		**228**	**836**	222	814
Adjustments for:					
Depreciation and depletion	10	**89**	**326**	110	403
Investment and finance income	6	**(14)**	**(52)**	(3)	(11)
Change in fair value of investment property	12	**3**	**11**	6	22
Other income/ expenses		**-**	**-**	1	4
Finance costs	8	**86**	**315**	87	319
Exploration expenses	10	**9**	**33**	13	48
Impairment	7	**9**	**33**	-	-
Board compensation		**(2)**	**(7)**	(2)	(7)
		408	**1,495**	434	1,592
Changes in working capital:					
Trade and other receivables		**(169)**	**(620)**	(246)	(901)
Inventories		**(1)**	**(4)**	(2)	(7)
Trade payables and accruals		**4**	**15**	(6)	(22)
Due from related parties		**-**	**-**	1	3
Due to related parties		**(2)**	**(7)**	2	7
Net cash generated from operating activities		**240**	**879**	183	672
Income tax paid		**(63)**	**(231)**	(84)	(308)
Net cash flows from operating activities		**177**	**648**	99	364
INVESTING ACTIVITIES					
Purchase of property, plant and equipment (net)	10	**(42)**	**(154)**	(86)	(316)
Expenditure on intangibles	11	**(29)**	**(106)**	(10)	(37)
Investment and finance income received		**14**	**52**	3	11
Net cash flows used in investing activities		**(57)**	**(208)**	(93)	(342)
FINANCING ACTIVITIES					
Proceeds from borrowings (net)		**2**	**7**	16	59
Finance costs paid		**(69)**	**(253)**	(69)	(253)
Net cash flows used in financing activities		**(67)**	**(246)**	(53)	(194)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**53**	**194**	(47)	(172)
Cash and cash equivalents at the beginning of the year		**112**	**411**	159	583
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	**165**	**605**	112	411

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Attributable to the equity holders of the parent															
	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*
As at 1 January 2011	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
As at 31 December 2011	1,801	6,602	48	176	48	176	220	806	55	200	48	176	4	15	2,224	8,151
Profit for the year	-	-	-	-	-	-	165	605	-	-	-	-	-	-	165	605
Other comprehensive income	-	-	-	-	-	-	-	-	29	106	-	-	-	-	29	106
Total comprehensive income for the year	-	-	-	-	-	-	165	605	29	106	-	-	-	-	194	711
Board compensation	-	-	-	-	-	-	(2)	(7)	-	-	-	-	-	-	(2)	(7)
Transfer to reserves	-	-	17	62	17	62	(34)	(124)	-	-	-	-	-	-	-	-
Share based payment (note 25)	-	-	-	-	-	-	-	-	1	4	-	-	-	-	1	4
As at 31 December 2012	**1,801**	**6,602**	**65**	**238**	**65**	**238**	**349**	**1,280**	**85**	**310**	**48**	**176**	**4**	**15**	**2,417**	**8,859**

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

1 ACTIVITIES

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

The Company, 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/ operations of the Group at 31 December 2012 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 Limited	100	British Virgin Islands	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 operation**	**Principal activities**
Pearl Petroleum Company Limited ("Pearl Petroleum")	40	Kurdistan Region of Iraq	Oil and Gas exploration & production
UGTC / Emarat JV	50	Emirate of Sharjah	Gas Transmission
Crescent National Gas Corporation Limited ("CNGCL")	35	Emirate of Sharjah	Gas Marketing
Egyptian Bahraini Gas Derivative Company ("EBGDCO")	26.4	Egypt	Gas Processing
GASCITIES Ltd	50	MENASA	Gas Cities

2 SUMMARY OF 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 Company'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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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
There were no IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the Group.

Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment has no impact on the Group.

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, joint arrangements and associates in separate financial statements. The Group does not present separate financial statements. The amendment is 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 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently evaluating the impact of this IFRS on its financial statements.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and 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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group does not expect this to impact its consolidated financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Management's initial analysis is that equity accounting will not be required for the Group's material joint ventures. This standard becomes effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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 Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Annual Improvements May 2012
These improvements include:

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013. The Group expects no material impact on its financial position, performance, disclosures or stated accounting policies from the adoption of these amendments.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2012.

(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 consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra- group transactions and dividends are eliminated in full.

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.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference in recognised in profit or loss.

Losses are attributable to the non-controlling interest even if that results in a deficit balance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

(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.

(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. Under the method, the investment is initially rocognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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 recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. 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 the convenience of the users of the consolidated financial statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)
(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.

(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
Other assets:	
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 residual values and useful lives of property, plant and equipment are reviewed at each financial year end and adjusted prospectively if appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)
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 in the income statement.

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

Oil and gas assets
Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Pre-licence costs are expensed in the period in which they are incurred. Exploration licence and leasehold property acquisition costs are capitalised in intangible assets. 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. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)
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.

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. When the carrying amount 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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'.

(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 (fair value 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. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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, net of oustanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

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

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

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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Convertible bonds
Convertible bonds that can be converted into share capital at the option of the holder and 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 amortised 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:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 JUDGEMENTS, 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 2012 was USD 308 million (2011: USD 308 million).

- Recoverability of intangible oil and gas assets: The Group assesses 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 using estimates and assumptions such as long term oil prices, discount rates, operating costs, future capital requirements, decommissioning costs, explorations potentials, reserves and operating performance uncertainty. These estimates and assumptions are subject to risk and uncertainty. The carrying amount of such intangibles at 31 December 2012 was USD 181 million (2011: USD 170 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 at 31 December 2012.

- 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

- 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. Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves and are accounted for prospectively.

- Exploration and evaluation expenditures: The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

- Hydrocarbon reserve and resource estimates: Oil and gas properties are depreciated on a units UOP basis at a rate calculated by reference to total proved reserves determined in accordance with the Society of Petroleum Engineers' rules and incorporating the estimated future cost of developing those reserves. The Group estimates its commercial reserves based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the relevant commercial arrangements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of oil and gas properties at 31 December 2012 is shown in Note 10.

  As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

  - The carrying value of oil and gas properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows
  - Depreciation and amortisation charges in profit or loss may change where such charges are determined using the UOP method, or where the useful life of the related assets change
  - Provisions for decommissioning may change as the changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities

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 2012

	United Arab Emirates USD mm	*Egypt USD mm*	*Kurdistan Region of Iraq USD mm*	*Total USD mm*
Revenue				
External sales net of royalties	5	237	258	500
Total revenue net of royalties	5	237	258	500
Gross profit	3	130	224	357
Investment and finance income				14
Impairments				(9)
Change in fair value of investment property				(3)
General and administration expenses				(36)
Finance costs				(86)
Exploration expenses				(9)
Profit before income tax				228
Income tax expense				(63)
PROFIT FOR THE YEAR				165
Segment assets as at 31 December 2012	1,551	1,195	774	3,520
Segment liabilities as at 31 December 2012	960	133	10	1,103
Other segment information				
Capital expenditure:				
Intangible assets	-	29	-	29
Property, plant and equipment	11	44	1	56
Total	11	73	1	85
Depreciation, depletion & amortisation	2	74	13	89
Change in fair value of investment property	3	-	-	3
Impairments	-	9	-	9
Exploration expenses	-	9	-	9

4 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2011

	United Arab Emirates USD mm	*Egypt USD mm*	*Kurdistan Region of Iraq USD mm*	*Total USD mm*
Revenue				
External sales net of royalties	5	290	226	521
Total revenue net of royalties	5	290	226	521
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 expenses				(13)
Profit before income tax				222
Income tax expense				(84)
PROFIT FOR THE YEAR				138
Segment assets as at 31 December 2011	1,505	1,183	619	3,307
Segment liabilities as at 31 December 2011	944	129	10	1,083
Other segment information				
Capital expenditure:				
Intangible assets	-	10	-	10
Property, plant and equipment	15	69	2	86
Total	15	79	2	96
Depreciation, depletion & amortisation	(2)	(94)	(14)	(110)
Change in fair value of investment property	(6)	-	-	(6)
Exploration expenses	-	(13)	-	(13)

5 NET REVENUE

	2012 *USD mm*	*2011* *USD mm*
Gross sales	**631**	685
Less: royalties*	**(136)**	(169)
Net sales	**495**	516
Tariff/ management fee	**5**	5
Net revenue	**500**	521

*Royalties relate to Government share of production in Egypt.

6 INVESTMENT AND FINANCE INCOME

	2012 *USD mm*	*2011* *USD mm*
Profit share from bank deposits	**3**	3
Fair value gain on financial assets at fair value through profit or loss (note 16)	**2**	-
IPO interest claim	**2**	-
Dividend income (note 15)	**6**	-
Others	**1**	-
	14	3

7 IMPAIRMENT

	2012 *USD mm*	*2011* *USD mm*
Impairment of oil and gas assets	**9**	-
	9	-

8 FINANCE COSTS

	2012 *USD mm*	*2011* *USD mm*
Finance cost on borrowings (note 20)	**86**	87
	86	87

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.

	2012	*2011*
Earnings:		
Net profit for the year - USD mm	**165**	138
Shares:		
Weighted average number of shares outstanding for calculating basic EPS - million	**6,602**	6,602
EPS (Basic) – USD:	**0.025**	0.021

(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.

	2012	*2011*
Earnings:		
Net profit for the period - USD mm	**165**	138
Finance cost on convertible Sukuk - USD mm	-	75
	165	213
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	**6,602**	6,602
Adjustments for:		
Share options/ Restricted shares (million) *	**11**	11
Assumed conversion of convertible Sukuk (million)**	-	1,908
Weighted average number of ordinary shares for diluted earnings per share (million)	**6,613**	8,521

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 2012 all the stock options issued to employees were out of the 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. The conversion option for the existing sukuk has already expired. Further based on the restructuring agreed with the Ad-hoc committee of bond holders the Conversion price of the Convertible Sukuk has been set at a 50% premium to the 75 calendar day volume-weighted average price, measured over a period commencing on 1 December 2012 (with a floor of AED 0.75 and cap of AED 1.00). The conversion option will be exercisable from 31 October 2013.

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 2012	14	12	714	340	28	119	249	1,476
Additions	-	-	23	5	2	-	26	56
Transfer from intangible assets (note 11)	-	-	9	-	-	-	-	9
Transfer from capital work-in-progress	-	11	-	35	2	-	(48)	-
Dry hole costs written-off	-	-	(9)	-	-	-	-	(9)
Transfer of interest*	-	-	-	-	-	-	(14)	(14)
At 31 December 2012	14	23	737	380	32	119	213	1,518
Depreciation/ Depletion:								
At 1 January 2012	-	1	384	37	9	13	-	444
Depreciation/ depletion charge for the year	-	-	66	17	2	4	-	89
At 31 December 2012	-	1	450	54	11	17	-	533
Net carrying amount:								
At 31 December 2012	**14**	**22**	**287**	**326**	**19**	**102**	**213**	**985**

Capital Work in Progress comprises:

	USD mm
SajGas Plant and facilities	**99**
UGTC Pipeline & related facilities	**89**
Kurdistan Region of Iraq Project	**5**
Sharjah Western Offshore	**20**
	213

* Transfer of interest relates to the 50% cost transfer to Ajman Petroleum Investment Company relating to the Zora field upon signing of the Unitisation and Unit Operating Agreement.

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 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
EBGDCO	37
	249

10 PROPERTY, PLANT AND EQUIPMENT (continued)

On 22 June 2012, an LPG road tanker belonging to a local LPG trader and offtaking LPG on behalf of and under contract with the Kurdistan Regional Government of Iraq ("KRG"), exploded and caused a fire during filling at the loading facility of the Kor Mor LPG plant. The incident resulted in five fatalities and caused extensive damage to the LPG loading facility as well as two other third-party road tankers. Detailed and comprehensive investigations conducted by independent and internationally-recognised experts have confirmed that the incident was caused by a latent welding defect in the third-party tanker, which caused it to rupture during normal filling operations

As a protective measure in accordance with the requirements of the Authorisation, the Operator (Crescent and Dana Gas) declared force majeure in relation to this incident on behalf of Pearl Petroleum Company Limited ("PPCL").

Whilst the rest of the plant was not damaged, as a precautionary operational measure, the plant was temporarily shut down for less than twenty four hours. Since then the plant resumed gas production and within three days returned to over 90% of the pre-incident gas and condensate production levels. In view of the damage to the LPG loading facility, LPG production has been suspended. The revenues from LPG sales will resume on completion of the restoration of the damaged LPG loading facilities which is expected in the second quarter of year 2013.

PPCL has awarded the contract on an open book estimate basis to Petrofac, an EPC Contractor, for reconstruction of the damaged loading bay facility. Subject to the terms and conditions of the insurance policies, the PPCL's insurers have confirmed their commitment to reimburse the costs incurred for the restoration of the damaged LPG loading facility. Formal derecognition of the cost of damaged assets will be carried out upon availability of a reliable estimate.

11 INTANGIBLE ASSETS

	Oil and gas interests USD mm	*Purchase, transmission, sweetening and sale rights USD mm*	*Gas processing rights USD mm*	*Development cost USD mm*	*Goodwill USD mm*	*Total USD mm*
Cost at 1 January 2012	**257**	**857**	**7**	**2**	**308**	**1,431**
Less: impairment	**(87)**	**-**	**-**	**(2)**	**-**	**(89)**
At 1 January 2012	**170**	**857**	**7**	**-**	**308**	**1,342**
Additions - net	**29**	**-**	**-**	**-**	**-**	**29**
Transfer to property, plant and equipment (note 10)	**(9)**					**(9)**
Impairments (note 7)	**(9)**	**-**	**-**	**-**	**-**	**(9)**
At 31 December 2012	**181**	**857**	**7**	**-**	**308**	**1,353**

	Oil and gas interests USD mm	*Purchase, transmission, sweetening and sale rights USD mm*	*Gas processing rights USD mm*	*Development cost USD mm*	*Goodwill USD mm*	*Total USD mm*
Cost at 1 January 2011	270	857	7	2	308	1,444
Less: impairment	(87)	-	-	(2)	-	(89)
At 1 January 2011	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

11 INTANGIBLE ASSETS (continued)

(a) Oil and Gas Interests

Oil and gas interests of USD 181 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 22% 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 is located in the Nile Delta of Egypt and includes 476,216 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land was 30 June 2012, however during the period the expiry date of the Exploration Concession was extended by six months to 28 December 2012. The Company has been granted an extension of upto six months to complete the drilling and testing of the Begonia-1 well. In case of either discovering commercial gas or reaching negative results, the Company will have to withdraw from the concession areas that have not been transformed into development leases or those which have not been presented by the Company to be transformed into a development lease. To date, nine development leases have been created from this exploration concession and produce both natural gas and associated liquids representing approximately 70% 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.

- 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 was 30 June 2012, however during the period, the expiry date of the Exploration Concession was extended by six months to 28 December 2012. On 28 December 2012 the third and final exploration term of the West Qantara Concession ended and the Egyptian Natural Gas Holding Company "EGAS" submitted a notice of relinquishment of the concession area except for the areas which are already converted or proposed to be converted into development leases. 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 7% 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"). The expiry date of the Exploration Concession of the non-productive land was 17 July 2012, however, the expiry date of the Exploration Concession was extended by six months to 17 January 2013. 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.

Management has carried out a review of each of the oil and gas interests at 31 December 2012 and believes that no impairment charge is required for the year.

11 INTANGIBLE ASSETS (continued)

(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 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 needs rectification. 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 2013. 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 2012. Management understands that progress has been made on the construction of the required facilities by the ultimate gas supplier and has reviewed the various inputs into the original valuation model. Management believes that the inputs into the original valuation model have not significantly changed.

Key assumptions used in value in use calculations
The calculation of value in use for the above cash generating unit is most sensitive to the following assumptions:

- Financial returns;
- Discount rates;
- Oil prices; and
- Reserve volumes and production profiles.

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

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

Oil prices: management has used an oil price assumption based on the forward curve prevailing at the end of 2012 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
The calculation for value in use for the oil and gas interest is most sensitive to the following assumptions:

- Discount rate
- Crude oil prices

The Group generally estimate values in use for the oil exploration and production CGU using a discounted cash flow model. The future cash flows are discounted to their present value using a pre-tax discount rate of 10% (2011: 10%) that reflects current market assessments of the time value of money and the risks specific to the asset. Management believes that currently, there is no reasonable possible change in discount rate which would reduce the Group's excess of recoverable amount over the carrying amount of the individual assets/CGU to Zero.

In respect of the long term Brent crude oil prices, management is confident that even a 20% downward movement in prices will not lead to an impairment in the intangible.

11 INTANGIBLE ASSETS (continued)

(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% (2011: 10%). Cash flows are generated using forecasted production, capital and operating cost data over the expected life of each accumulation.

12 INVESTMENT PROPERTY

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

	2012 *USD mm*	*2011* *USD mm*
Balance at 1 January	**31**	37
Change in fair value	**(3)**	(6)
Balance at 31 December	**28**	31

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 property is 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 3 million (31 December 2011: decrease of USD 6 million) which was charged to the consolidated income statement.

13 INVENTORIES

	2012 *USD mm*	*2011* *USD mm*
Spares and consumables	**66**	65
Less: provision for impairment of inventory	**(12)**	(12)
	54	53

14 TRADE AND OTHER RECEIVABLES

	2012 *USD mm*	*2011* *USD mm*
Trade receivables	**599**	475
Prepaid expenses	**1**	1
Other receivables	**76**	31
Less: provision for impairment of other receivables	**(6)**	(6)
	670	501

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

14 TRADE AND OTHER RECEIVABLES (continued)

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

	Total USD mm	*Neither past due nor impaired USD mm*	***Past due but not impaired*** *<30 days USD mm*	*30-60 days USD mm*	*61-90 days USD mm*	*91-120 days USD mm*	*>120 days USD mm*
2012	**599**	**100**	**32**	**11**	**56**	**5**	**395**
2011	475	108	28	48	70	9	212

15 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2012 ***USD mm***	*2011* *USD mm*
At 1 January	**226**	315
Change in fair value	**29**	(89)
At 31 December	**255**	226

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 2012. During the year MOL announced cash dividend for its ordinary shareholders, consequently Dana Gas received a dividend of USD 6 million against its shareholding. The dividend was recorded in "Investment and Finance Income" in 2012. Subsequent to the year end on 8 February 2013, the Group sold 1.675 million shares out of its total shareholding in MOL at an average price of HUF 17,515 (USD 133 million) through a book built process.

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 ***USD mm***	*2011* *USD mm*
Balance at 1 January	**10**	10
Investment redeemed during the year	**(2)**	-
Change in fair value	**2**	-
Balance at 31 December	**10**	10

This represents initial investment of USD 10 million in the Abraaj Infrastructure fund. The valuation is based on the latest indicative fair value of the fund as of 31 December 2012.

17 CASH AND CASH EQUIVALENTS

	2012 *USD mm*	*2011* *USD mm*
Cash at bank and on hand		
- Local Banks within UAE	**39**	15
- Foreign Banks outside UAE	**42**	18
Short term deposits		
- Local Banks within UAE	**84**	79
	165	112

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 165 million (2011: USD 112 million). The effective profit rate earned on short term deposits ranged between 1.25% to 3.5% (2011: between 1.25% to 4.5%) per annum. As at 31 December 2012, 75% of cash and cash equivalents were held with UAE banks.

18 SHARE CAPITAL

	2012 *USD mm*	*2011* *USD mm*
Authorised:		
6,602,001,300 common shares of AED 1 each (USD 0.2728 each)		
Issued and fully paid up:		
6,602,001,300 common shares of AED 1 each (USD 0.2728 each)	**1,801**	1,801

19 OTHER RESERVES

	Share Option USD mm	*Fair value reserve USD mm*	*Total USD mm*
At 1 January 2011	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)
At 31 December 2011	11	44	55
Value of employee services (note 25)	1	-	1
Change in fair value of available-for-sale financial assets (note 12)	-	29	29
At 31 December 2012	**12**	**73**	**85**

20 BORROWINGS

	2012 *USD mm*	*2011* *USD mm*
Non-current		
Convertible bonds	-	-
Bank borrowings	**29**	25
	29	25
Current		
Convertible bonds	**920**	904
Bank borrowings	**2**	1
	922	905
Total borrowings	**951**	930

a) CONVERTIBLE SUKUK

In October 2007, the Group arranged to issue convertible Sukuk-al-Mudarabah (the "Sukuk") for a total value of USD 1 billion in the form of Trust Certificates through a special purpose company (the "Issuer"). The Sukuk, which were drawn up to conform to the principles of Islamic Sharia, were approved by the Company's shareholders at an Extraordinary General Meeting held in July 2007. Pursuant to the conditions of the Sukuk, the proceeds were used for the acquisition and development of assets (the "Mudarabah Assets") owned by Dana LNG Ventures Limited. The Sukuk matured on 31 October 2012 and had a profit rate of up to 7.5% payable quarterly from profits of the Mudarabah Assets. In 2008, Dana Gas purchased some of the Sukuk from the market with a nominal value of USD 80 million.

The Sukuk have limited recourse and are secured against the shares of Dana LNG Ventures Limited (BVI), Sajaa Gas Company Limited (Sharjah) and United Gas Transmissions Company Limited (Sharjah). The net book value of the aforesaid assets is in excess of the amount of the Sukuk.

The Company announced on 10 December 2012 that a standstill and lockup agreement has been reached with an "Ad-Hoc committee" of Sukuk certificate holders for a refinancing transaction (the "Transaction") in relation to the Sukuk. The standstill and lockup agreement also includes a detailed set of terms, conditions and implementation schedule.

The salient features of the agreement are a reduction in the Company's outstanding sukuk amount from USD 1 billion to USD 850 million via USD 70 million of cash pay-down and cancellation of another USD 80 million of the existing Sukuk already owned by the Company. The remaining USD 850 million will be split into two tranches being a USD 425 million Ordinary Sukuk and USD 425 million Convertible Sukuk (together the "New Sukuks"), each with 5-year maturity to ensure long term financing.

The Ordinary Sukuk will have a profit rate of 9% per annum and the Convertible Sukuk will have a profit rate of 7% per annum.

The security package available to holders of the New Sukuks will be enhanced by USD 300 million of value comprising security over receivables of the Company's Egyptian assets, and certain Egyptian assets and UAE assets. The Conversion price of the Convertible Sukuk will be set at a 50% premium to the 75 calendar day volume-weighted average price, measured over a period commencing on 1 December 2012 (with a floor of AED 0.75 and cap of AED 1.00). The Company has the option to pay down the outstanding principal amount of the New Sukuks prior to the new maturity date of 31 October 2017, subject the applicable call premium on the Ordinary Sukuk and the soft call provisions on the Convertible Sukuk.

The Company is currently pursuing the steps necessary for seeking the consent of the shareholders, existing Sukuk holders and the approvals of the regulatory authorities, as necessary, in order to successfully complete the Transaction early in the second quarter of 2013.

20 BORROWINGS (continued)

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

	2012 *USD mm*	*2011* *USD mm*
Liability component as at 1 January	**904**	887
Finance cost (note 8)	**86**	87
Profit paid	**(58)**	(58)
	932	916
Current portion of profit classified under trade payables and accruals (note 22)	**(12)**	(12)
Liability component as at 31 December	**920**	904

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 31 million as at 31 December 2012.

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 favor 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

	2012 *USD mm*	*2011* *USD mm*
Asset decommissioning obligation	**12**	15
Employee's end of service benefits	**2**	2
	14	17

22 TRADE PAYABLES AND ACCRUALS

	2012 *USD mm*	*2011* *USD mm*
Trade payables	**66**	70
Accrued expenses and other payables	**60**	52
Profit accrued on convertible bonds (note 20)	**12**	12
	138	134

23 INTEREST IN JOINT VENTURES

(a) Kurdistan Region of Iraq Project

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

These discussions have included dialogue on the amounts due to Pearl Petroleum from the KRG under the terms of the Authorisation. Pearl Petroleum retains full confidence in its contractual rights to full recovery of sums invoiced and indeed Pearl Petroleum has received USD 358 million (Dana Gas 40% share is USD 143 million) during 2012.

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

	2012 *USD mm*	*2011* *USD mm*
Assets:		
Long-term assets	**339**	351
Current assets	**435**	268
Total Assets	**774**	619
Liabilities:		
Current liabilities	**10**	11
Net Assets	**764**	608
Income	**258**	226
Operating cost	**(31)**	(29)
Gross profit	**227**	197

23 INTEREST IN JOINT VENTURES (continued)

(b) UGTC/ Emarat Joint Venture

The Group has a 50% interest in the UGTC/ Emarat jointly controlled operations which own 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:

	2012 *USD mm*	*2011* *USD mm*
Assets:		
Long-term assets	**22**	23
Current assets	**14**	11
Total Assets	**36**	34
Liabilities:		
Current liabilities	**-**	1
Net Assets	**36**	33
Income	**4**	4
Operating cost	**(2)**	(2)
Gross profit	**2**	2

(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 MMscfpd 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.

	2012 *USD mm*	*2011* *USD mm*
Assets:		
Long-term assets	**49**	38
Current assets	**3**	7
Total Assets	**52**	45
Liabilities:		
Bank Borrowings	**29**	26
Current liabilities	**11**	5
Total Liabilities	**40**	31
Net Assets	**12**	14
Income	**3**	-
Operating cost	**(2)**	-
Gross profit	**1**	-

24 CONTINGENCIES AND COMMITMENTS

(a) Dana Gas Egypt

Dana Gas Egypt currently has two drilling rigs under contract. In the event that Dana Gas Egypt does not proceed with planned drilling with these rigs, it would be obligated to pay the rig operators a variable stand by rate based on days not utilised under the contracts. Maximum liability based on 31 December 2012 was USD 4 million.

In March 2006, Dana Gas Egypt entered into an agreement with CTIP Oil and Gas Limited ("CTIP") to acquire a 25% percent working interest in the West El Manzala and West El Qantara Concessions. Following the closing of this acquisition, the Company held a 100% participating interest in each of these Concessions. As agreed under the terms of the 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 (Addax) had initiated arbitration against the Company. In April 2012, the arbitration proceedings initiated by Addax have been concluded through an amicable settlement between Addax and Dana Gas. Notice of settlement has been sent to both the Tribunal and ICC and receipt of the same has been confirmed.

(c) Pearl Petroleum Company Limited

Capital expenditure contracted for in relation to reconstruction of the damaged loading bay facility at the end of the reporting period but not yet accrued is estimated at USD 17 million (DG Share: USD 7 million). As per the terms and conditions of the insurance policies, Pearl Petroleum Company Limited insurers have confirmed their commitment to reimburse the cost incurred for the restoration of the damaged LPG loading facility.

(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 2012 {31 December 2011: USD 5 million (DG Share: USD 2 million)}.

(e) Sharjah Western Offshore

Capital expenditure contracted for at the end of the reporting period but not yet accrued amounted to USD 2 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.

25 SHARE BASED PAYMENT (continued)

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.

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 no restricted share awards (2011: 6 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:

	2012 ***USD mm***	*2011* *USD mm*
Expense arising from share-based payment transactions	**1**	2

26 RELATED PARTY DISCLOSURES

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

	2012		*2011*	
	Revenues ***USD mm***	***Fees for management services*** ***USD mm***	*Revenues* *USD mm*	*Fees for management services* *USD mm*
Joint ventures	1	-	1	-
Major shareholders	-	1	-	1
	1	**1**	1	1

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:

	2012 ***USD mm***	*2011* *USD mm*
Short-term benefits	**8**	10
Stock options	**1**	2
	9	12

27 INCOME TAX EXPENSE

The Company is not liable to tax in its primary jurisdiction. The income tax expenses relates to its Egypt operations which are taxed an average tax rate of 40.55% (2011: 40.55%)

The effective tax rate was 28 % (2011: 35 %).

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 2012, 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 25 million higher / lower (2011: USD 23 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 2012, 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 25 million higher / lower (2011: USD 23 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 14.

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 2012 is the carrying amount as illustrated in note 17.

(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 2012

	On demand USD mm	*Less than 3 months USD mm*	*3 to 12 months USD mm*	*1 to 5 years USD mm*	*>5 years USD mm*	*Total USD mm*
Borrowings	**920**	**-**	**3**	**27**	**13**	**963**
Trade payables and accruals	**-**	**138**	**-**	**-**	**-**	**138**
Provisions	**-**	**-**	**2**	**5**	**16**	**23**
	920	**138**	**5**	**32**	**29**	**1,124**

Year ended 31 December 2011

	On demand USD mm	*Less than 3 months USD mm*	*3 to 12 months USD mm*	*1 to 5 years USD mm*	*>5 years USD mm*	*Total USD mm*
Borrowings	-	6	973	14	17	1,010
Trade payables and accruals	-	134	-	-	-	134
Provisions	-	-	2	6	22	30
Due to related parties	-	2	-	-	-	2
	-	142	975	20	39	1,176

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 2012 and 31 December 2011. Capital comprises share capital, retained earnings, other reserves and equity component of convertible bonds, and is measured at USD 2,283 million as at 31 December 2012 (2011: USD 2,124 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:

	Carrying amount 2012 USD mm	*Fair value 2012 USD mm*	*Carrying amount 2011 USD mm*	*Fair value 2011 USD mm*
Financial assets				
Available for sale financial asset	**255**	**255**	226	226
Trade and other receivables	**668**	**668**	499	499
Cash and short term deposits	**165**	**165**	112	112
Financial liabilities				
Borrowings	**951**	**951**	930	930
Trade and other payables	**138**	**138**	134	134

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 2012:

	Level 1 USD mm	*Level 2 USD mm*	*Level 3 USD mm*	*Total USD mm*
Assets				
Available for sale financial asset				
- Equity securities	**255**	**-**	**-**	**255**
Financial assets at fair value through profit or loss	**-**	**10**	**-**	**10**
Total	**255**	**10**	**-**	**265**

The following table presents the Group' assets that are measured at fair value on 31 December 2011:

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

29 FAIR VALUE ESTIMATION (continued)

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.

30 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans & receivables	*Assets at fair value through the profit and loss*	*Available-for-sale financial asset*	*Total*
	USD mm	*USD mm*	*USD mm*	*USD mm*
31 December 2012				
Assets as per Statement of Financial Position				
Available-for-sale financial asset	-	-	255	255
Trade and other receivables excluding pre-payments	669	-	-	669
Financial assets at fair value through profit or loss	-	10	-	10
Cash and cash equivalents	165	-	-	165
Total	834	10	255	1,099

	Liabilities at fair value through the profit and loss	*Derivatives used for hedging*	*Other financial liabilities at amortised cost*	*Total*
	USD mm	*USD mm*	*USD mm*	*USD mm*
31 December 2012				
Liabilities as per Statement of Financial Position				
Borrowings	-	-	951	951
Provisions	-	-	14	14
Trade and other payable excluding statutory liabilities	-	-	138	138
Total	-	-	1,103	1,103

30 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Loans & receivables	*Assets at fair value through the profit and loss*	*Available-for-sale financial asset*	*Total*
	USD mm	*USD mm*	*USD mm*	*USD mm*
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

	Liabilities at fair value through the profit and loss	*Derivatives used for hedging*	*Other financial liabilities at amortised cost*	*Total*
	USD mm	*USD mm*	*USD mm*	*USD mm*
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