دانة غاز

DANAGAS

Annual Report 2007

The Middle East's
Leading Independent
Natural Gas Company

Glossary

bod	barrels of oil per day
Bcf	billions of cubic feet
mbod	thousands of barrels of oil per day
mboed	thousand of barrels of oil equivalent per day
MMb	millions of barrels of oil
MMboe	millions of barrels of oil equivalent
MMscfd	millions of standard cubic feet of gas per day
Tcf	trillions of cubic feet

1 barrel of oil equivalent = 6000 cubic feet of gas (approx.)

Annual Report *2007*

Our Vision

To be the leading private sector natural gas company operating in the Middle East, North Africa and South Asia (MENASA) Region.

Our Strategy

To grow across the natural gas value chain in the MENASA Region, through targeted organic growth and selective strategic acquisitions, building upon our unique asset and highly skilled human resource base, and by leveraging our solid regional relationships, wide regional shareholding, and extensive technical and financial capabilities.

Natural gas is already the fuel of choice of the present and will be so for the foreseeable future. The MENASA Region contains 45% of the World's known natural gas reserves, yet only accounts for 18% of global production, thereby providing a clear platform for rapid yet sustainable long-term growth.

Our Strengths

- Independent and private sector approach - giving us flexibility to rapidly capitalise on opportunities in the region, and define our competitive edge.
- A regional perspective - providing our investors with a wide exposure to the rapidly growing Middle East gas industry.
- Experienced management and technically-skilled staff are at the core of our success.
- Strong regional Board of Directors and International Advisory Board provide unique insight and access to opportunities across the Region.

Contents

Focused Area of Interest - the MENASA Region

Current Operations

Northern Iraq

- Appraisal and development of the Khor Mor and Chemchemal Fields in the Kurdistan Region of Iraq to provide 300MMscfd of gas supplies to power stations at Erbil and Suleymania as well as gas sales for domestic industries and export. Production and sale of associated LPG and condensate.
- Gas Master Plan Development
- Kurdistan Gas City
- Pearl Pipeline Project

UAE

- SajGas (100% subsidiary) owns and operates a 600MMscfd gas processing and sweetening facility.
- UGTC (100% subsidiary) receives gas at offshore platform, transports to UAE for processing at SajGas, and thereafter transports gas to end users.
- CNGCL (35% affiliate) markets and sells gas to government owned utilities and industrial consumers. It also sells condensates, LPG and sulphur recovered from the gas.
- EMARAT joint venture (50% Dana Gas) transports gas from Sajaa to Hamriyah Free Zone end users
- Sharjah Western Offshore Concession - Development of Zora gas field and further exploration.

Egypt Nile Delta

- 100% operated interest in five development leases in the Nile Delta producing 140MMscfd and 6mboed of LPG and condensate.
- 100% operated interest in West Manzala and West Qantara exploration Concessions.

Upper Egypt

- 50% operated interest in El Baraka discovery in initial production phase.
- 50% operated interest in Komombo exploration Concession.

Gulf of Suez

- Development of LPG recovery plant through Danagaz, Bahrain to extract valuable liquid petroleum products from natural gas.

Highlights of 2007

- Maiden year of operating revenues generating operating profit of US$ 83 million.
- Completion of US$ 1.1bn acquisition of Centurion Energy International Inc., Dana Gas's upstream production platform.
- Ended year on 32,000 barrels of oil equivalent per day upstream production.
- Dabayaa gas discovery in the Nile Delta of Egypt brought on stream within 3 months of discovery.
- First ever commercial oil production in Upper Egypt, at Al Baraka.
- Commenced appraisal and development of two of Iraq's major gas fields, Khor Mor and Chemchemal, to provide natural gas supplies to fuel power stations, domestic industries and later gas exports.
- Successful placement of a US$ 1 billion convertible Sukuk in the international market in the midst of the global credit market turmoil.

Planned activity for 2008

- 18 well exploration and development programme in Egypt. Significant drilling activity commencing April 2008 with a total of 5 drilling rigs operational by Q3.
- Commencement of production from the Khor Mor Field in the Kurdistan Region of Iraq at an initial rate of 150 MMscfd rising to 300 MMscfd by year end.
- Appraisal work of the Chemchemal Field in Iraq and commencement of field development to deliver first gas in 2009.
- Commencement of the UAE Gas Project to process and transport imported gas into the UAE at initial rates of up to 600 MMscfd.
- Completion of a 1000 MMscfd capacity pipeline in a joint venture with EMARAT to transport gas to end users in the UAE.
- Implement project to build and operate the Gulf of Suez liquids extraction plant in Egypt in partnership with the Egyptian National Gas Company (EGAS) and Arab Petroleum Investment Corporation (APICORP).

Board of Directors

Front row (left to right) : *Mr. Adib Abdullah Al-Zamil; Dr. Adel Khalid Al-Sabeeh, Deputy-Chairman; H.H.Shaikh Ahmed bin Sultan Al-Qasimi, Honorary Chairman; Mr. Hamid Dhiya Jafar, Executive Chairman; Mr. Said Arrata*

Back row (left to right) : *Mr. Majid Hamid Jafar; Mr. Abdullah Nasser Huwaileel Al-Mansoori; Mr. Khalid Abdulrahman Al-Rajhi; Dr. Tawfeeq Abdulrahman Almoayed; Mr. Ziad Abdullah Ibrahim Galadari; H.E.Shaikh Sultan bin Ahmed bin Sultan Al-Qasimi; Mr. Varoujan Nerguizian; Mr. Abdulaziz Hamad Al-Jomaih; Mr. Ahmed Rashid Al-Arbeed; Mr. Rashid Saif Al-Jarwan*

Not shown in the picture : *Mr. Rashad Mohammed Al-Zubair*

International Advisory Board

Starting from left to right: *The Lord Simon of Highbury CBE; H.E. Nordine Ait-Laoussine; Sir Graham Hearne (IAB Chairman); Mr. Nader H. Sultan; Dr. Joseph A. Stanislaw; Dr. Burckhard Bergmann; Mr. Kai Hietarinta; Mr. Badr H. Jafar (IAB Secretary)*

EXECUTIVE CHAIRMAN'S STATEMENT
Mr. Hamid Jafar

Highlights of 2007

The year 2007 was in many ways a year of major achievement for Dana Gas. In January, the Company successfully completed its $1.1 billion acquisition of Centurion Energy International Inc, with its assets in Egypt, Tunisia and Nigeria/Sao Tome. This provided an immediate platform into the upstream exploration and production sector with significant hydrocarbon production for Dana Gas, and a highly skilled professional workforce of over 200 people in Egypt, Canada and the UK.

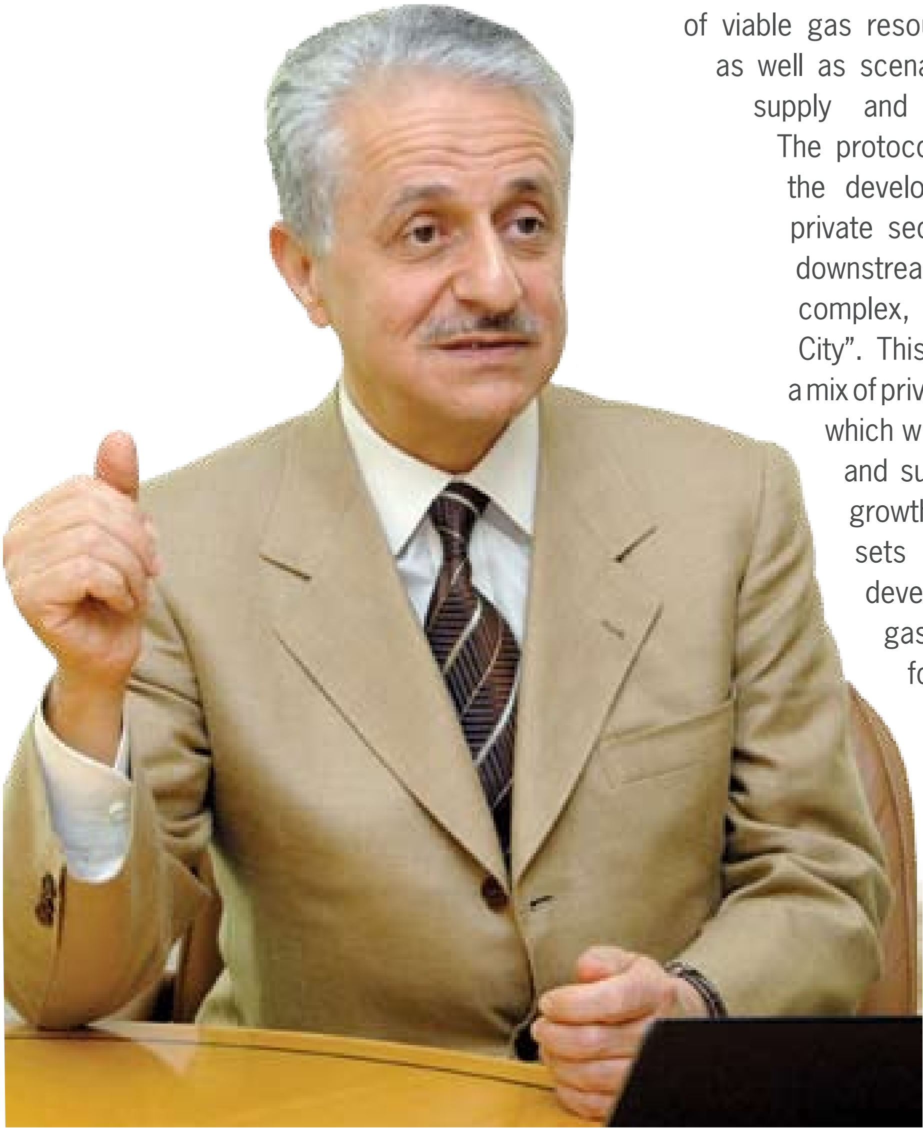
The integration of the Centurion team into our organization was successfully completed while production and development activities continued uninterrupted throughout the year. Our LPG recovery plant in the Nile Delta in Egypt was commissioned in early 2007 and the plant is successfully providing a steady recovery of petroleum liquids thus adding considerable value to our production stream. We also achieved exploration successes during the year with three new discoveries brought on stream in Egypt: Luzi and Dabayaa in the Nile Delta, and El Baraka in Upper Egypt. Our seismic data in the Nile Delta has confirmed the excellent prospectivity of our acreage, and we have an exciting 18 well drilling programme both in the Nile Delta and in Upper Egypt during 2008.

In April 2007, building rapidly upon the valuable upstream operating credentials that came with the Centurion acquisition, Dana Gas together with Crescent Petroleum, secured exclusive rights from the Kurdistan Regional Government (KRG) in Iraq to appraise and develop two major world-class gas fields in Northern Iraq. This major integrated project involves upstream exploration including seismic acquisition and interpretation, field operations and production, state-of-the-art gas processing and a high pressure gas transmission pipeline network running along 180km of terrain. The produced gas will initially be supplied to two power stations at Erbil and Suleymania and we will market and sell the associated liquid petroleum products extracted from the gas.

"Dana Gas stands at the forefront of its industry peers in terms of access to new alliances and project opportunities."

I am pleased to say that we are making rapid progress in executing this fast track project with the entire 180km pipeline corridor cleared, the pipeline under construction and all components of the LPG plant complete and ready for on-site installation. First gas is targeted by mid-2008. At that point, inshallah, we can be proud to have achieved a feat in planning, designing, investing and executing such a complete integrated gas project in world record time.

Additionally, Dana Gas and Crescent Petroleum entered into a Strategic Alliance Protocol with the Kurdistan Regional Government which calls for identification of viable gas resources in the region as well as scenarios for future gas supply and demand options. The protocol also provides for the development of a major private sector midstream and downstream gas utilisation complex, the "Kurdistan Gas City". This complex will attract a mix of private sector industries which will bring employment and sustainable economic growth to Iraq and sets a blueprint for the development of future gas and energy markets for the whole Region. Site selection for the Kurdistan Gas City is in its final stages and our innovative concept is now also being developed for Egypt other places in the MENASA Region.



Last year we acquired a 66% interest in Danagaz, a Bahraini company, which is developing the Gulf of Suez Gas Liquids Extraction Plant, as a joint venture with EGAS, the state owned Egyptian Natural Gas Holding Company, and APICORP, the Arab Petroleum Investment Corporation. This project will recover liquids from gas at strategic gas and oil production centres within the national gas grid to process 150 MMscfd of gas, and market the recovered propane, butane and condensates, while returning lean gas back to the grid. Dana Gas plans to replicate this successful value-add model of our gas business project at various locations in Egypt and elsewhere in the Region.

Finally, closer to home, the UAE Gas Project, which is set to import initial volumes of up to 600 MMscfd of gas is currently undergoing hook-up and pre- commissioning work of the upstream components in readiness for the commencement of supplies this year. The gas will be sold to utilities and industrial customers in the Northern Emirates. As a complement to this project, we have also completed the construction of a 1000 MMscfd capacity gas transmission pipeline in ownership and in joint venture with EMARAT to transport gas to end-user customers in the UAE.

The opportunity before us

The MENASA Region holds an estimated 2600 TCF of proven gas reserves, or about 45% of the world's total. Despite this huge resource, the Region is currently contributing only 18% of the world's annual gas production. This is not to mention the enormous indigenous growth of gas demand in our Region which has surprised all other parts of the world. The investment opportunities to develop, produce, transport, consume and export natural gas in the MENASA region are therefore immense, and projections for required capital continue to climb. This expansion is being driven by the Region's large, under-utilized gas resources, growing regional demand, expansion of export pipeline and LNG gas transportation systems, and increasing global demand for energy in general, and gas in particular. APICORP has estimated a total required spend of $490bn for the MENA Region's infrastructure investment over the next five years. In essence, capital or technology is no longer the constraint for investors; the challenge is accessing and professionally managing these opportunities. In this context, your company, Dana Gas, is increasingly being seen as the partner of choice to create growth and value across the Region by new entrants and established players alike looking to expand across the regional gas markets. As a result, we have been very successful in forming strategic alliances with IOCs, government organizations, and technology providers, both inside and outside the MENASA Region.

Clearly, we are in an ideal position to be a major beneficiary of this projected growth in our Region's gas business for our stakeholders. With our vision as the MENASA Region's leading private sector natural gas company, Dana Gas is well on its way to becoming the major industry provider of gas, gas liquids and natural gas industrial solutions for regional and local customers across the entire gas value chain. We will provide integrated gas solutions, differentiating ourselves principally by optimizing the overall commercial and social value of gas for regional governments and customers within the Region, and thereafter adding value by exporting gas and gas-derived products.

Our business model differentiates the Company from its competitors by positioning it as a leading private-sector partner, "from the Region, by the Region, and for the Region". By doing so, the Company continues to assure its shareholders that it has a competitive advantage in gaining access to quality investment opportunities across the MENASA gas sector.

"Growth remains a key and recurrent theme of our strategy, whether through acquisition or organic growth – we believe that the growth potential for the Dana Gas business model is unlimited..."

I am very proud of the progress that we have made in 2007, growing Dana Gas into a business with sizeable assets and projects across the whole of the natural gas value chain. Our operations in Egypt continue to perform to expectations, with an exciting and aggressive exploration and development drilling programme in 2008. Our UAE Gas Project is set to start supplying gas in mid 2008, and likewise, our Khor Mor field development in the Kurdistan Region of Iraq is progressing towards first gas also by mid 2008. We plan to further expand each of our existing projects, as well as developing a rich portfolio of exciting forward growth opportunities currently under active consideration. Growth remains a key and recurrent theme of our strategy, and we believe that the potential for the Dana Gas business model is practically limitless.

Finally, I would like to express my profound appreciation to all members of the Dana Gas group – executives and staff alike - and to their supportive families, for the tremendous contribution that they have made to the success of the Company. I am immensely proud of them all and of their immense hard work and dedication. With everyone's collective participation and commendable efforts to date, I have every confidence that Dana Gas will achieve the growth and results that we aspire to.

Activities at a Glance

Egypt

Centurion is Dana Gas's fully-owned upstream platform ending the year at a production rate of 32,000 boed, primarily gas and products, from its operations in the Nile Delta in Egypt. Through Centurion we also have exploration assets in Egypt, Tunisia and the Nigeria/Sao Tome JDZ. We have a highly prospective drilling programme in 2008 with the primary focus on our Concessions in the Nile Delta.

Dana Gas is leading the consortium implementing the Gulf of Suez LPG recovery plant project near Ras Shukheir in Egypt which will recover and sell LPG and condensates from gas in the national grid. Plant commissioning is expected towards the end of 2009.

Iraq

In Northern Iraq, together with our partner Crescent Petroleum, we have the exclusive right to appraise and develop two major gas fields in the Kurdistan Region, Khor Mor and Chemchemal. We are installing a liquid recovery plant to extract LPG and condensates from the gas, and a 180km pipeline to deliver processed gas to power stations at Erbil and Suleymania. We will market the LPG and condensates both to domestic and international customers. Production from the Khor Mor Field will commence in mid-2008.

UAE

Dana Gas owns a pipeline company, United Gas Transmissions Company Ltd (UGTC) and a gas sweetening plant Sajaa Gas Private Limited Company (SajGas). From the second quarter of 2008, we will be transporting and processing imported gas through our facilities. Through our 35% ownership of Crescent National Gas Corporation Limited (CNGCL), we will market this gas in the Northern Emirates market, whilst associated products including LPG, condensates and sulphur will be sold to domestic and international customers.

Dana Gas has recently signed an agreement for the evxploration and development of the Western Offshore concession in Sharjah, UAE, which will include development of the Zora Gas Field.

Gas Cities

Dana Gas City concept is a unique synergistic hub which will bring together processing and manufacturing units in an industrial park to create optimized natural gas based industrial clusters. The Gas City is being rolled out in the Kurdistan Region of Iraq and a number of other locations in the MENASA Region. These projects will optimize gas value to the producer, while benefiting the local economy through [ ] industrial development including high quality job creation, training and trade.

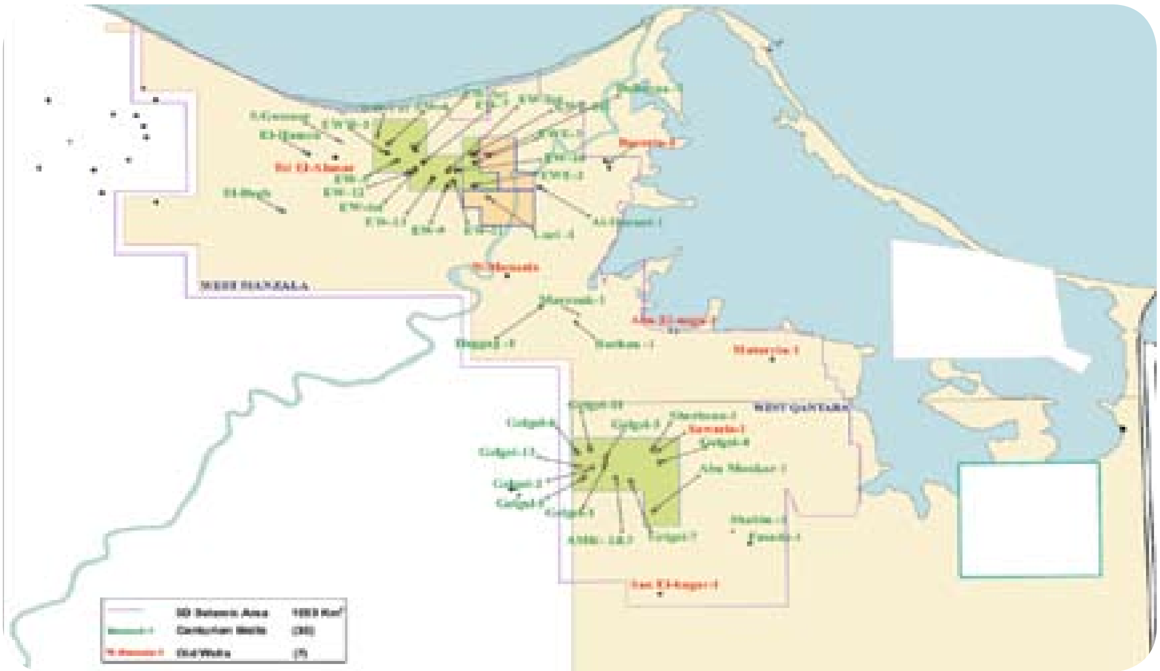
Floating LNG Terminals

Dana Gas has an agreement with SBM, a provider of offshore solutions to the oil and gas industry, to develop and construct LNG floating storage and re-gasification facilities. We are currently working on a project at Port Qasim near Karachi in Pakistan.

Business Review

Egypt

Dana Gas's 100% owned subsidiary company, Centurion, produced oil and gas from a total of six Development Leases in Egypt during 2007, three of which commenced production during the year. The Company's total production during the year was 10.3 MMboe (2006 11.4 MMboe), made up of 50.5 Bcf of gas, 1.2 MMb of condensate and 0.6 MMb of LPG and 0.3 MMb of oil. The average production rate amounted to 29 mboed, while the flow at year-end reached 32 mboed.



Dana Gas's Centurion Concessions and Development Leases in the Nile Delta, Egypt

Production

In the Nile Delta the Company continued to produce from its El Wastani, El Wastani East, and South East Manzala Development Leases throughout the year and additionally added production from two new Development Leases, Luzi and Dabayaa which lie adjacent to El Wastani East. Production from Luzi commenced on 22nd June 2007 and at Dabayaa production commenced on 20th September 2007. First production from Dabayaa was achieved just 3 months after discovery of the accumulation, such rapid start up being made possible by gaining rapid approval from EGAS of the Plan of Development and making use of existing flowlines and equipment. During December the production rate from the Dabayaa and Luzi discoveries was 16 MMscfd, or 3.1 mboed including condensate and LPG.

During the year four development wells were drilled on El Wastani, and one well on each of Luzi, Dabayaa, and SE Manzala. Additionally workovers and recompletions were carried out on various wells in order to enhance production levels from the fields.

Dana Gas's El Wastani Fields – Nile Delta

Dana Gas's El Wastani LPG Plant

Construction of Phase III of the El Wastani LPG plant was completed at the start of the year and the first LPG was delivered to the pipeline in early 2007. With this plant fully operational, the Company is now able to extract LPG from the production stream, thus increasing the sales value of its production. A study of the plant performance indicated that LPG recovery levels are within 1% deviation from the idealized rate, reflecting the Company's high standard of operating procedures and practices at the plant.

In Upper Egypt the Company achieved first production from its Al Baraka Development Lease on the Komombo Concession on December 22nd, in a record four months after the discovery well was drilled at initial production rates of approximately 100 bod gross, 50 bod to the Centurion 50% interest. The first shipment of oil, bound for the Assiut refinery, was dispatched 5 days later. This historic discovery provided the first production of oil from Upper Egypt. Future development plans will be dependent upon the production performance from the initial well.

At the West Gharib Concession production continued during the year from seven Development Leases: Arta, Fadl, Hana, Hoshia, W Hoshia, N Hoshia and S Rahmi. A total of 6 development wells were drilled on these Development Leases.

Reserves

Gaffney, Cline & Associates ("GCA") have carried out an independent evaluation of the Company's hydrocarbon reserves.

Year end reserves for the Company, in MMboe, were as follows.

	Proven	Proven + Probable	Proven + Probable + Possible
El Wastani, El Wastani E, Luzi, Dabayaa	45.25	62.02	80.42
SE Manzala	0.55	0.77	0.77
NE Zahrah	0.00	3.89	5.00
El Baraka	0.02	0.07	0.22
TOTAL	45.82	66.75	86.41

Exploration

In July gas and condensate was discovered at the Dabayaa-1 exploration well in the Company's West Manzala Exploration Concession in Egypt. The well tested at 16.5 MMscfd of gas and 330bod of Condensate from the Abu Madi formation. A Development Lease was granted and production commenced from this discovery in September.

The Marzouk-1 exploration well was drilled on the West Manzala Concession. Gas was discovered in the Kafr El Sheikh formation. The Borhan-1 well was drilled later in the year to test the Kafr El Sheikh discovery, which was deemed to be sub-commercial.

An evaluation of the exploration potential of the Company's Egyptian exploration assets, the West Manzala, West Qantara and Komombo Concessions, was carried out by GCA. Their report indicated that the risked gas potential of the blocks is in the order of 3.5 trillion cubic feet (Tcf) of gas. The Company has identified over 100 prospects and leads on its West Manzala and West Qantara Concessions and has an aggressive 18 well drilling programme planned for 2008.

On the Komombo Concession, the Company made the first ever commercial oil discovery in Upper Egypt from its exploration well Al Baraka-1. 370 API oil was tested from the Abu Ballas interval at 3840' to 3918' at a rate of 150 bod. A Development Lease was granted for this discovery with production commencing in December.

Portfolio Management

Following a review of the Company's portfolio, our 30% non-operated interest in the West Gharib Concession was identified as being non-material to the Company. On 9th January 2008 a Sales and Purchase Agreement was entered into with TransGlobe Petroleum International Inc. to sell Centurion's entire interest in the West Gharib Concessions for the sum of US$ 40.2 million plus working capital adjustments of approximately US$ 5.3 million. Completion of this transaction occured on 5 February 2008.

Egypt Gulf of Suez – Gas Liquids (LPG) Plant

The Company, through its affiliate Danagaz, Bahrain, is developing a project to build, own and operate the Gulf of Suez Liquids Extraction Plant in Egypt in partnership with Egyptian National Gas Company (EGAS) and Arab Petroleum Investment Corporation (APICORP). The formation of a joint venture company in Egypt and the acquisition of the land for the Plant has been completed, and a shareholders' meeting was held in January 2008 to move ahead with implementation of the project. The contract award for the LPG Plant is planned for the second quarter of 2008 with construction to take up to 18 months.

Kurdistan Region of Iraq

In April 2007, Dana Gas entered into agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources and specifically to develop, process and transport natural gas on a fast track basis from the Khor Mor Gas Field (Khor Mor Project), including the extraction of LPG and condensate, to supply natural gas to fuel domestic electric power generation plants currently under construction near Erbil and Suleymania.

Schematic of gas fields in Kurdistan Region of Iraq

Phase I of the Khor Mor Project to produce 150 MMscfd will commence production in mid-2008, with Phase II for an additional 150 MMscfd coming on stream towards the end of the year. In addition, the Group is concurrently appraising the potential of the Chemchemal Gas Field for development. The Kurdistan Region of Iraq project is being implemented jointly with Crescent Petroleum for a total investment of US$ 650 million by the end of 2008.

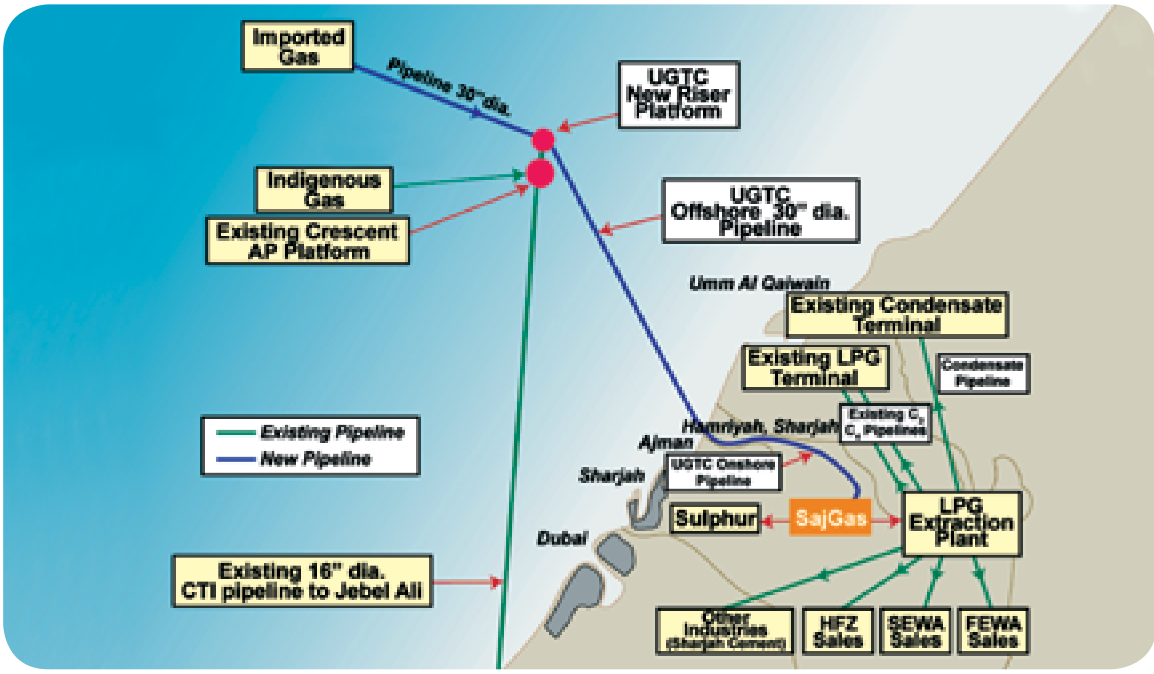
The Khor Mor Project has continued to make good progress across all fronts. The manufacturing of the two LPG plants and the pipelines is proceeding according to plan, even though several changes in the pipeline route have had to be accommodated. The actual progress to date is around 80% (end March 2008).

LPG Tank for the Khor Mor Project

Gas Sweetening Unit for the Khor Mor Project

UAE Gas Project

The UAE Gas Project receives gas at the UGTC (100% subsidiary) offshore receiving platform and then transports the gas through UGTC's 80km, 30" onshore and offshore pipeline, to the gas processing facilities in Sharjah which are operated by SajGas (100% subsidiary). CNGCL (35% affiliate) is the gas marketing company that has long term gas contracts to deliver 600 MMscfd of gas from the SajGas processing plant to end users in the UAE. In addition, LPG, condensate and sulphur produced from the processing of the imported gas will be marketed within the region or sold to international customers.



Schematic showing the UAE Gas Project

The construction and interconnection of Company's facilities in the UAE were successfully completed in 2005, and are currently awaiting the commencement of imported gas supplies. The ultimate supplier of gas has now completed the installation of all the main components and hook-up and pre-commissioning of its upstream facilities is currently taking place. In preparation, steps are being taken to take the SajGas plant out of preservation and into operation mode. Gas supplies are expected to commence in mid- 2008.

Joint Venture with EMARAT

Dana Gas's UGTC has implemented a joint venture project with EMARAT (on a 50:50 basis) to develop the largest gas pipeline in the UAE (48 inch diameter) with a design capacity of 1000 MMscfd to transport gas in Sharjah from Sajaa to Hamriyah. The construction and installation of the pipeline was completed in March 2008. This pipeline will be utilized by three end-users in the Hamriyah area, SEWA, FEWA and CNGCL under terms of a 25 year contract signed with these end users.

Dana Gas's UGTC Gas Inlet and Metering Station

Dana Gas's SajGas processing plant at Sharjah

Sharjah Western Offshore Concession

In early March Dana Gas, in a 50/50 joint venture with Crescent Petroleum, signed a 25 year agreement with the Government of Sharjah for the exploration and development of the Western Offshore concession in Sharjah, UAE. The deal marks Dana Gas' entry into the GCC exploration and production sector, and is also the first offshore upstream asset for the Company in the Middle East.

The concession agreement covers an offshore area of over 1,000 square kilometres, and includes the development of the Zora Gas Field within Sharjah, which was discovered in 1979. The development includes resuming horizontal drilling of two wells, the installation of offshore platforms, and laying a 25km pipeline.

The Agreement also provides for exploration works within the concession area, including geological evaluation studies, followed by seismic surveys and the drilling of exploration wells.

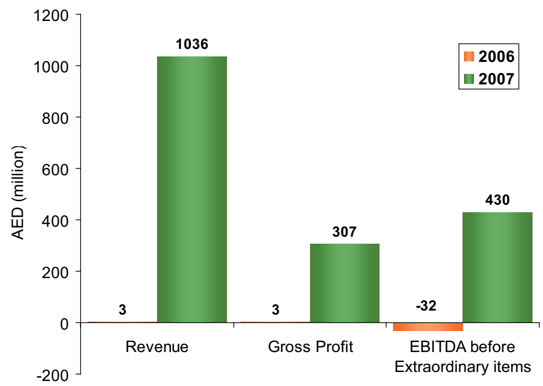
LNG Opportunities

UGTC has signed a co-operation agreement with SBM (a world leader in providing floating offshore solutions to the oil and gas industry) for the development and construction of LNG floating, storage, and re-gasification facilities ("LNG Terminals"). The first such LNG Terminal is planned for Port Qasim near Karachi, Pakistan. Following the signing of a Memorandum of Understanding between UGTC and its partners, including SBM, site surveys have been completed and approvals obtained from local authorities in Pakistan for the location and design of the proposed terminal. The project sponsors have initiated discussions with potential gas buyers in Pakistan to set the basis of a long term gas sales and purchase agreement.

Financial Review

Operating Results

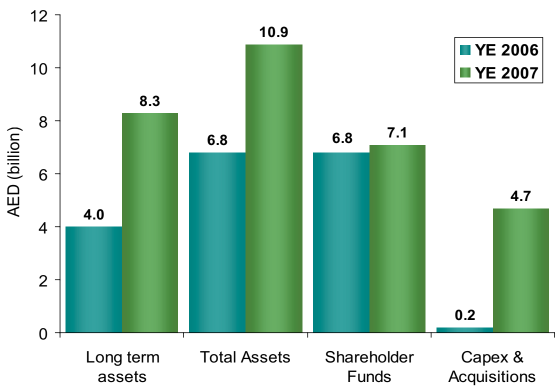
Following commencement of operating revenues on 10 January 2007, Dana Gas has continued to build upon its operating performance during the year. It should be noted that 2007 is the first year of operating revenues, as there were no revenues in 2006 and profits were earned in that year only from IPO income and from finance income through placement of bank deposits.



Results for the Year ended 31 December 2007

During the first year of commercial operations, Dana Gas earned Revenues of US$ 283 million (AED 1.036 billion) from 355 days of production.

Despite being the first year of commercial operations, the Group earned a Gross Profit of US$ 83 million (AED 307 million) and a Net Profit of US$ 30 million (AED 111 million).



Liquidity and Financial Resources

The Group's cash and bank balances as at 31 December 2007 stood at a healthy US$ 541 million (AED 1.98 billion) which are sufficient to fund the group's funding requirements over the foreseeable future.

On 31 October 2007, the Company successfully completed the issue of its maiden Convertible Sukuk placement in the international market and raised US$ 1 billion (AED 3.67 billion). The proceeds were partially utilised to repay a bridge finance facility of US$ 470 million. The Company's maiden international capital markets foray through the Convertible Sukuk issue was positively received by the international investment community in spite of the challenging credit environment and established many firsts of such fund raising for the Middle East region.

This long term Sukuk provides the base for funding the Company's existing projects as well as fund the Company's strategic expansion to enhance shareholder value. Structured as a Sukuk al-Mudarabah, the Dana Gas Sukuk matures in 2012 and has a fixed profit rate of 7.5%. The reference share price, to which an exchange premium of 10% will apply, will be set 9 months' time from the month of issue, reflecting the Sukuk holders and management's confidence in the Company's near-term growth.

Financial Position

The Group's total assets have increased by 59% from US$ 1.867 billion (AED 6.843 billion) in 2006 to US$ 2.960 billion (AED 10.851 billion) in 2007 following the acquisition of Centurion Energy. Shareholders' equity rose to US$ 1.939 billion (AED 7.107 billion) as at 31 December 2007 from US$ 1.859 billion (AED 6.814 billion) as at the end of 2006.

Share Price Performance

During 2007 the price of Dana Gas shares have risen some 37% starting the year at AED 1.61 per share and ending the year at AED 2.20 per share. This performance has been against a backdrop of volatile market conditions during the year and reflects both the performance of Dana Gas during the year and the growing interest in Dana Gas from within the region and beyond.

Corporate Governance

The Board of Directors of the Company is committed to the highest standards of Corporate Governance, the objective being to place the Company at the forefront of best practice in the international corporate arena.

To help promote these activities, the Company commissioned the International Finance Corporation (IFC) in Washington, a member of the World Bank Group, to assist and advise the Company in achieving its stated objective to adopt and implement sustainable policies for best practice in the following areas:

- Corporate Governance
- Health, Safety and Environmental management
- Corporate Social Responsibility

IFC submitted its extensive report to the Board of Directors who adopted the resolutions and the implementation program is currently underway. In addition to seeking best practice recommendations from the IFC, the Board of Directors has also formed a Sub-committee specifically to oversee policy and compliance with Corporate Governance principles.

In June 2007 the Company received an award for transparency and corporate disclosure from the ADSM.

The refurbished Al Mustafa Mosque near the El Wastani production facilities in the Nile Delta

Health Safety and Environment

Dana Gas places a top priority on its Health, Safety and Environmental (HSE) performance and as such, HSE activities are integrated in the overall business processes of our operating companies. The provision of superior health and safety for all our employees, contractors and subcontractors is a core Company value of equal importance to environmental protection, operational efficiency, community welfare and profitability. In case of conflicting values, safety will always come first.

As an important mid-stream processing arm of Dana Gas, SajGas is successfully tackling unique HSE challenges at all stages of the project life cycle. This project is now at the stage of startup with the commissioning activities underway. The activities being undertaken reflect the importance attached to HSE within the Dana Gas organization with a high level risk assessment of the commissioning and start-up activities being undertaken to highlight areas of focus and develop mitigation plans going forward. Emergency Response drills and exercises are conducted to monitor effectiveness of the ER plans, and infrastructure and procedural arrangements are implemented to manage the environmental aspects and impacts of plant operations including effluents, emissions and waste discharges management.

In Egypt our subsidiary operating company, Centurion, recorded some 2.3 million man hours worked with only one lost time incident during 2007.

Partnership for Clean Development Mechanism Projects

Dana Gas along has entered into a strategic alliance with Eco Securities and Dubai Multi Commodities Center (DMCC) to jointly pursue Green House Gas (GHGs) reduction opportunities by identifying and developing Clean Development Mechanism (CDM) projects within the region's Oil & Gas and Energy Industries. This initiative, whilst making positive commercial sense, further promotes Dana Gas as a leader in the global energy business in a socially responsible manner.

Corporate Social Responsibility

Dana Gas is contributing to improvements in the quality of life of its staff and their families, as well as the communities in which it has operations, in line with local culture and international best practice. The Company's Corporate Social Responsibilities (CSR) activities are focussing on education and training awards, as well as promoting genuine environmental and humanitarian causes.

Auditors' Report and Financial Statements

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC

Report on the financial statements

We have audited the accompanying financial statements of Dana Gas PJSC and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

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

Sharjah, United Arab Emirates
12 March 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	1 January 2007 to 31 December 2007 USD mm	1 January 2007 to 31 December 2007 AED mm	20 November 2005 to 31 December 2006 USD mm	20 November 2005 to 31 December 2006 AED mm
Revenue		**283**	**1,036**	1	3
Less: Royalties		**(118)**	**(431)**	-	-
Net revenue	4	**165**	**605**	1	3
Cost of sales		**(16)**	**(57)**	-	-
Depreciation and depletion	11	**(66)**	**(241)**	-	-
Gross profit		**83**	**307**	1	3
Investment and finance income	5	**10**	**35**	224	820
Other income	6	**1**	**5**	7	26
Gain from change in fair value of investment property	7	**56**	**205**	-	-
General and administration expenses		**(22)**	**(81)**	(10)	(35)
Finance costs	8	**(42)**	**(153)**	-	-
Exploration expenses	11	**(10)**	**(37)**	-	-
PROFIT BEFORE TAX FOR THE YEAR/PERIOD		**76**	**281**	222	814
Income tax expense		**(46)**	**(170)**	-	-
PROFIT FOR THE YEAR/ PERIOD	9	**30**	**111**	222	814
Basic and diluted earnings per share (USD/AED per share)	10	0.005	0.019	0.037	0.136

The attached explanatory notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 USD mm	2007 AED mm	2006 USD mm	2006 AED mm
ASSETS					
Non-current assets					
Property, plant and equipment	11	**641**	**2,353**	235	862
Intangible assets	13	**1,236**	**4,532**	857	3,140
Goodwill	13	**308**	**1,128**	-	-
Investment property	7	**77**	**282**	-	-
		2,262	**8,295**	1,092	4,002
Current assets					
Inventories	14	**40**	**145**	-	-
Accounts receivable and prepayments	15	**78**	**286**	1	2
Bank balances and cash	16	**541**	**1,983**	774	2,839
Assets held for sale	17	**39**	**142**	-	-
		698	**2,556**	775	2,841
TOTAL ASSETS		**2,960**	**10,851**	1,867	6,843
EQUITY AND LIABILITIES					
Equity					
Share capital	18	**1,637**	**6,000**	1,637	6,000
Statutory reserve		**25**	**92**	22	81
Legal reserve		**25**	**92**	22	81
Retained earnings		**200**	**732**	178	652
Convertible bonds- equity component	19	**52**	**191**	-	-
Total equity		**1,939**	**7,107**	1,859	6,814
Non-current liabilities					
Convertible bonds	19	**916**	**3,358**	-	-
Finance lease obligations		**-**	**1**	-	-
Asset decommissioning obligation		**4**	**15**	-	-
		920	**3,374**	-	-
Current liabilities					
Accounts payable and accruals	20	**98**	**360**	8	29
Short term portion of finance lease obligations		**1**	**2**	-	-
Liabilities directly associated with assets held for sale	17	**2**	**8**	-	-
		101	**370**	8	29
Total liabilities		**1,021**	**3,744**	8	29
TOTAL EQUITY AND LIABILITIES		**2,960**	**10,851**	1,867	6,843

Director
12 March 2008

Director
12 March 2008

The attached explanatory notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	1 January 2007 to 31 December 2007 USD mm	1 January 2007 to 31 December 2007 AED mm	20 November 2005 to 31 December 2006 USD mm	20 November 2005 to 31 December 2006 AED mm
OPERATING ACTIVITIES					
Profit for the year/period before appropriations and tax		**76**	**281**	222	814
Adjustments for:					
Other income		**-**	**-**	(7)	(26)
Investment and finance income	5	**(10)**	**(35)**	(224)	(820)
Depreciation and depletion	11	**66**	**241**	-	-
Gain from change in fair value of investment property	7	**(56)**	**(205)**	-	-
Finance costs	8	**42**	**153**	-	-
Board compensation		**(2)**	**(9)**	-	-
		116	**426**	(9)	(32)
Changes in working capital:					
Accounts receivable and prepayments		**(18)**	**(66)**	(1)	(2)
Inventories		-	**1**	-	-
Accounts payable and accruals		**41**	**146**	(11)	(39)
Income tax		**(46)**	**(170)**	-	-
Net cash from (used in) operating activities		**93**	**337**	(21)	(73)
INVESTING ACTIVITIES					
Purchase of property, plant and equipment, net		**(152)**	**(556)**	(62)	(229)
Additions to intangible assets	13	**(22)**	**(82)**	-	-
Investment in deposits with more than three months' maturity		**28**	**103**	(28)	(103)
Investment and finance income	5	**10**	**35**	224	820
Acquisition of subsidiaries	12	**(1,129)**	**(4,138)**	-	-
Net cash (used in) from investing activities		**(1,265)**	**(4,638)**	134	488
FINANCING ACTIVITIES					
Proceeds from issue of share capital		**-**	**-**	1,104	4,045
Proceeds from issue of convertible bonds	19	**966**	**3,541**	-	-
Proceeds from bridge finance	19	**470**	**1,723**	-	-
Redemption of convertible notes		**-**	**-**	(530)	(1,941)
Repayment of long term debt		**(13)**	**(46)**	-	-
Repayment of bridge finance	19	**(470)**	**(1,723)**	-	-
Finance lease obligations settled		**(1)**	**(2)**	-	-
Finance costs	8	**(42)**	**(153)**	-	-
Net cash from financing activities		**910**	**3,340**	574	2,104
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(262)**	**(961)**	687	2,519
Cash inflow on acquisition of subsidiaries	12	**57**	**208**	59	217
Cash and cash equivalents at the beginning of the year/period		**746**	**2,736**	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	16	**541**	**1,983**	746	2,736

The attached explanatory notes 1 to 25 form part of these consolidated financial statements.

	Share capital		Statutory reserves		Legal reserves		Retained earnings		Convertible bonds-equity component		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
Proceeds from issue of share capital	1,637	6,000	-	-	-	-	-	-	-	-	1,637	6,000
Profit for the period 20 November 2005 to 31 December 2006	-	-	-	-	-	-	222	814	-	-	222	814
Total income and expense for the period	1,637	6,000	-	-	-	-	222	814	-		1,859	6,814
Transfer to reserves	-	-	22	81	22	81	(44)	(162)	-	-	-	-
At 31 December 2006	1,637	6,000	22	81	22	81	178	652	-	-	1,859	6,814
Board compensation for 2006	-	-	-	-	-	-	(2)	(9)	-	-	(2)	(9)
Total expense for the year recognized directly in equity	-	-	-	-	-	-	(2)	(9)	-	-	(2)	(9)
Profit for the year	-	-	-	-	-	-	30	111	-	-	30	111
Total income and expense for the year	-	-	-	-	-	-	28	102	-	-	28	102
Equity component of convertible bonds issued	-	-	-	-	-	-	-	-	52	191	52	191
Transfer to reserves	-	-	3	11	3	11	(6)	(22)	-	-	-	-
At 31 December 2007	**1,637**	**6,000**	**25**	**92**	**25**	**92**	**200**	**732**	**52**	**191**	**1,939**	**7,107**

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

The attached explanatory notes 1 to 25 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 Market (ADSM).

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

The Company's registered head office is P O Box 2011, Sharjah, United Arab Emirates with the Group offices in Iraq, Saudi Arabia, Calgary, London, Bahrain and Cairo.

These consolidated financial statements were approved by the Board of Directors on 12 March 2008.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis except for investment properties and certain financial assets and liabilities that have been measured at fair value. In December 2007, following the Board of Director's approval, the Group changed its functional currency from United Arab Emirates Dirhams (AED) to United States Dollars (USD) as a significant portion of the Group's assets, liabilities, income and expenses are USD denominated. The change did not result in any significant translation differences as the USD is pegged to AED. Accordingly, the consolidated financial statements have been prepared in United States Dollars (USD), which is the Group's functional currency, and all values are rounded to the nearest million except where otherwise indicated. The United Arab Emirates Dirhams (AED) amounts have been presented solely for the convenience of readers of the consolidated financial statements. AED amounts have been translated at the rate of AED 3.6655 to USD 1.

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

New Standards and Interpretations
The accounting polices adopted are consistent with those used in the preparation of the financial statements for the period ended 31 December 2006, except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to following additional disclosures:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards and Interpretations (continued)

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Amendment - Presentation of Financial Statements*
- IFRIC 8 *Scope of IFRS 2 Share Based Payments*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*

The principal effects of these changes are as follows:

IFRS 7 *Financial Instruments: Disclosures*
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. These new disclosures are shown in notes 15, 24 and 25.

IAS 1 *Presentation of Financial Statements*
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 24.

IFRIC 8 *Scope of IFRS 2 Share Based Payments*
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 *Reassessment of Embedded Derivatives*
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 *Interim Financial Reporting and Impairment*
The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

Certain new standards, amendments to and interpretations of existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not early adopted. Those that are applicable to the group are as follows:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards and Interpretations (continued)

1. IAS 1 *'Presentation of Financial Statements (Revised)'* effective for annual periods beginning on or after 1 January 2009 has been revised to enhance the usefulness of information presented in the financial statements. Management is considering the approach to meeting this requirement.

2. IFRS 2 *'Amendments to IFRS 2 – Vesting Conditions and Cancellations'* is required to be applied to periods beginning on or after 1 January 2009. This amendment clarifies the definition of non-vesting conditions and prescribes accounting treatment of an award that is cancelled because a non-vesting condition is not satisfied. This amendment will have no significant impact on the Group's financial statements.

3. IFRS 3 '*Business Combinations (Revised)*' and the amended version of **IAS 27 *'Consolidated and Separate Financial Statements'***, effective for annual periods beginning on or after 1 July 2009, have been enhanced to, amongst other reasons, specify the accounting treatments for acquisition costs, contingent consideration, pre-existing relationships and reacquired rights. The revised standards include detailed guidance in respect of step acquisitions and partial disposals of subsidiaries and associates as well as in respect of allocation of income to non-controlling interests. Further, an option has been added to IFRS 3 to permit an entity to recognise 100 per cent of the goodwill of an acquired entity, not just the acquiring entity's portion of the goodwill. The impact of this standard on the Group is not expected to be significant.

4. IFRS 8 *'Operating Segments*' introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and allocate resources to them. Management is analysing the approach to be used in the segment information under IFRS 8.

5. IFRIC 14 –IAS 19 *'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when an MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial information, with retrospective application required. This will have no significant impact on the Group's financial statements.

6. Revisions to IAS 23 *'Borrowing costs'* have removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This will have no impact on the Group as its accounting policy in this regard requires capitalization of borrowing costs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards and Interpretations (continued)

7. IFRIC 11, IFRS 2 *'Group and Treasury Share Transactions'* effective for annual periods beginning on or after 1 March 2007 provides specific guidance on applying IFRS 2. It addresses share based payments involving an entity choosing or being required to buy its own equity instruments (treasury shares) to settle a share based payment obligation and the situation when the parent grants rights to its equity instruments to employees of its subsidiaries (both of which should be treated as equity-settled). In addition it addresses the situation when a subsidiary grants rights to equity instruments of its parent to its employees (which should be treated as cash settled). The Directors anticipate that the initial adoption of this standard will have no significant impact on the Group.

Significant accounting judgments and estimates

Estimation uncertainty

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

- Impairment of goodwill: the group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was USD 308 million (2006: NIL).

- Recoverable value of intangible oil and gas assets: the group determines at each balance sheet date whether there is any evidence of impairment in the carrying value of its intangible oil and gas assets. This requires management to estimate the recoverable value of its intangible oil and gas assets by reference to quoted market values, similar arms length transactions involving these assets etc. The carrying amount of intangibles assets at 31 December 2007 was USD 1,236 million (2006: USD 857 million).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The financial statements incorporate the financial statements of the parent company ("Dana Gas") and each of its controlled subsidiaries ("the Group") listed below as of 31 December 2007:

Name of the Subsidiary	*Place and country of incorporation*	*% of holding*		*Principal activities*
		31 December 2007	*31 December 2006*	
Sajaa Gas Private Limited Company ("SajGas")	Emirate of Sharjah, UAE	100%	100%	Gas Sweetening
United Gas Transmissions Company Limited ("UGTC")	Emirate of Sharjah, UAE	100%	100%	Gas Transmission
Dana Gas LNG Ventures and its subsidiaries	British Virgin Islands	100%	100%	Oil and Gas exploration, production
Danagaz (Bahrain) WLL	Bahrain	66%	-	Gas Processing

All significant inter-company balances and transactions have been eliminated on consolidation. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The Group's interests in joint ventures are accounted for by proportionate consolidation. Under this method the Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with the similar items, line by line, in its consolidated financial statements.

The financial statements of subsidiaries and joint ventures are prepared for the same reporting period as the parent company, using consistent accounting policies.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations
Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring costs) of the acquired business at fair value at the date of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Exploration expenditure
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, the relevant expenditure is transferred from intangible assets to property, plant and equipment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

Oil and gas properties	unit-of-production
Buildings	25 years
Gas plant	15 years
Other assets:	
Computers	3 years
Furniture and fixtures	3 years
Motor vehicles	3 years
Leasehold improvements	over the period of lease

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

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. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement at the time the asset is derecognised.

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

Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and development costs. Under this method, initial acquisition costs of oil and gas properties and costs of drilling and equipping exploration wells are capitalised when incurred and, if subsequently determined to be unsuccessful, are charged to dry hole expense.

Capitalised costs of proved oil and gas properties in property, plant and equipment are depleted using the unit-of-production method based on estimated proven oil and gas reserves. Changes in reserves are accounted for prospectively.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset decommissioning obligation

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

Intangible assets

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

Impairment and uncollectibility of non-financial assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of non-financial assets (continued)

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

Impairment of financial assets

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

(a) For assets carried at fair value, impairment is the difference between cost and fair value;

(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

(c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of spares and consumables are determined on a weighted average basis.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Accounts receivable

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

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash in hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

Accounts payable and accruals

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Deferred income tax
The Group follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognised for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted or substantively enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognised in income in the period that the change occurs.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

On the disposal of such entities, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal.

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

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

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

Investment properties
Investment properties are initially measured at cost, including transaction 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 incurred.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model.

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

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

Cash-settled transactions
The cost of cash-settled transactions is measured initially at fair value, which is determined by an external valuer using an appropriate pricing model. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash-settled transactions (continued)

each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. 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:

Rendering of services

Revenue from rendering of services is recognised as the service is rendered.

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.

Segment reporting

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

3 SEGMENTAL INFORMATION

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

Year ended 31 December 2007

	United Arab Emirates USD mm	*Egypt USD mm*	*Rest of the World USD mm*	*Total USD mm*
Revenue				
External sales net of royalties	1	164	-	165
Total revenue net of royalties	**1**	**164**	**-**	**165**
Results				
Segment operating results				
Profit before tax, finance cost, investment and finance income	6	102	-	108
Finance costs	-	-	-	(42)
Investment and finance income	-	-	-	10
Profit before income tax				76
Income tax expense	-	-	-	(46)
PROFIT FOR THE YEAR				30
Segment assets at 31 December 2007	1,990	798	172	2,960
Segment liabilities at 31 December 2007	946	63	12	1,021
Other segment information				
Capital expenditure for the year:				
Property, plant and equipment	16	82	64	162
Intangible oil & gas assets	-	22	-	22
Charges:				
Depletion and depreciation	-	(66)	-	(66)
Exploration cost	-	(10)	-	(10)
Gain from change in fair value of investment property	56	-	-	56

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

For the period ended 31 December 2006, the Group had only one geographical segment, United Arab Emirates.

4 NET REVENUE

	1 January 2007 to 31 December 2007 USD mm	20 November 2005 to 31 December 2006 USD mm
Gross sales	282	-
Less: Royalties	(118)	-
Net sales	164	-
Tariff fee	1	1
Net revenue	165	1

5 INVESTMENT AND FINANCE INCOME

	1 January 2007 to 31 December 2007 USD mm	20 November 2005 to 31 December 2006 USD mm
Profit share from bank deposits	10	57
Interest on IPO funds	-	167
	10	224

6 OTHER INCOME

	1 January 2007 to 31 December 2007 USD mm	20 November 2005 to 31 December 2006 USD mm
Income from sale of surplus material	1	-
Miscellaneous income	-	7
	1	7

7 INVESTMENT PROPERTY

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

	2007 USD mm	2006 USD mm
Opening balance	-	-
Transferred from property, plant and equipment (note 11)	**21**	-
Change in fair value of investment property	**56**	-
Balance at 31 December	**77**	-

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

Investment properties are stated at fair value which has been determined based on a valuation performed by a firm of qualified independent property consultants. This valuation resulted in an increase in the fair value by USD 56 million (2006: Nil) which was credited to the consolidated income statement.

8 FINANCE COSTS

	1 January 2007 to 31 December 2007 USD mm	*20 November 2005 to 31 December 2006 USD mm*
Finance costs convertible bonds	**13**	-
Finance costs on bridge facility	**23**	-
Arrangement fee and other charges	**6**	-
	42	**-**

9 PROFIT FOR THE YEAR

	1 January 2007 to 31 December 2007 USD mm	*20 November 2005 to 31 December 2006 USD mm*
The profit for the year is stated after charging:		
Staff costs	**15**	2
Rental- operating leases	**1**	-
	16	2

10 EARNINGS PER SHARE

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

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

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

	1 January 2007 to 31 December 2007	*20 November 2005 to 31 December 2006*
Earnings:		
Profit for the year/ period – USD mm	**30**	222
Shares:		
Weighted average number of shares outstanding for calculating basic EPS	**6,000**	6,000

On 31 October 2007, a USD 1 billion Convertible Sukuk was issued, with a forward price setting mechanism, set for 6 July 2008 (Refer Note 19). This Sukuk has an anti-dilutive impact on the earnings per share at 31 December 2007.

11 PROPERTY, PLANT AND EQUIPMENT

	Freehold land USD mm	Building USD mm	Oil and gas properties USD mm	Plant and equipment USD mm	Other assets USD mm	Capital work-in-progress USD mm	Total USD mm
Cost:							
At 1 January 2007	34	1	-	-	1	199	235
Acquired in business combination	-	-	355	-	1	-	356
Additions	-	-	74	2	6	80	162
Dry hole costs written-off	-	-	(10)	-	-	-	(10)
Transfer to investment property	(21)	-	-	-	-	-	(21)
Transfer to assets held for sale	-	-	(19)	-	-	-	(19)
At 31 December 2007	13	1	400	2	8	279	703
Depreciation/ Depletion:							
At 1 January 2007	-	-	-	-	-	-	-
Depreciation/ depletion charge for the year	-	-	65	-	1	-	66
Transfer to assets held for sale	-	-	(4)	-	-	-	(4)
At 31 December 2007	-	-	61	-	1	-	62
Net carrying amount:							
At 31 December 2007	**13**	**1**	**339**	**2**	**7**	**279**	**641**

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land USD mm	*Building USD mm*	*Oil and gas properties USD mm*	*Plant and equipment USD mm*	*Other assets USD mm*	*Capital work-in-progress USD mm*	*Total USD mm*
Cost:							
Acquired in business combination	34	1	-	-	-	138	173
Additions	-	-	-	-	1	61	62
At 31 December 2006	34	1	-	-	1	199	235
Depreciation:							
Depreciation charge for the year	-	-	-	-	-	-	-
At 31 December 2006	-	-	-	-	-	-	-
Net carrying amount:							
At 31 December 2006	**34**	**1**	**-**	**-**	**1**	**199**	**235**

12 BUSINESS COMBINATIONS

Acquisition of Centurion Energy International Inc

On 10 January 2007, Dana Gas PJSC completed a Plan of Arrangement ("Plan") with Centurion Energy International Inc. ("Centurion"). Under the terms of this Plan, Dana Gas acquired all of the issued and outstanding common shares of Centurion for CAD 12.00 in cash per common share for an aggregate acquisition cost of CAD 1.1 billion (approximately USD 1.1 billion) and retired debt of USD 127 million. The Plan was approved by the Centurion common share holders during a special meeting on 8 January 2007 and subsequently by the Queen's bench of Alberta Court. The results of Centurion have been consolidated from 10 January 2007. The Centurion acquisition was funded from internal cash and an Islamic Shariah compliant facility provided by Citibank of USD 470 million, which was fully repaid on 31 October 2007 out of the proceeds of the convertible sukuk (refer Note 19).

12 BUSINESS COMBINATIONS (continued)

Acquisition of Centurion Energy International Inc (continued)

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

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

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

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

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

- El Wastani Development Lease – These development leases are held with a 100% working interest and represent approximately 85% of current production. El Wastani production includes both gas and associated gas liquids. These leases have 13,017 acres of land included within their boundaries and are located in the Nile Delta of Egypt.

- South El Manzala Development Leases – These development leases are held with a 100% working interest and represent approximately 2% of current production. South El Manzala has only gas production. These development leases have 16,055 acres of land included within their boundaries and are located in the Nile Delta of Egypt.

12 BUSINESS COMBINATIONS (continued)

Acquisition of Centurion Energy International Inc (continued)

- West Gharib Concession – This concession contains several development leases and exploration lands. Centurion has a 30% working interest in this concession as a non-operating partner. Total acreage from this area represents 10,764 acres (net share). The West Gharib Concession produces approximately 3% of current volumes and produces only oil. This concession is located in the North West portion of Egypt near to Gulf of Suez. At the balance sheet date the Group had plans in place to sell its interest and accordingly the carrying value of this concession has been classified as held for sale. The sale was completed subsequent to the year end.

- West El Manzala Exploration Concession – Centurion holds a 100% working interest in this Concession, which includes 476,216 acres of exploration land. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt. To date, two development leases have been created from this exploration concession and produce approximately 10% of current volumes and produce both natural gas and associated liquids.

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

- Kom Ombo Exploration Concession – Centurion holds a 100% working interest in this Concession, which includes 5,654,727 acres of exploration land. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the southern desert of Egypt. To date one development lease has been created from this exploration concession and produces approximately 1% of current volumes and produces only oil.

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

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

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

12 BUSINESS COMBINATIONS (continued)

Acquisition of Centurion Energy International Inc (continued)

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

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

Acquisition of SajGas, UGTC and interest in CNGCL

During 2005 the Company acquired a 100% interest in SajGas and UGTC and a 35% interest in Crescent National Gas Corporation Limited ("CNGCL"). The Company's share of the fair value of the identifiable assets (including intangible assets) and liabilities of these entities as at the date of the acquisition was USD 1,070 million.

Intangible assets include USD 857 million which represent the fair value of the rights for the purchase, transmission, sweetening and sale of gas and related products acquired by the Company through its shareholdings in SajGas, UGTC and CNGCL. The fair value of the rights acquired was determined by reference to valuation exercises undertaken by professionally qualified independent third parties based on the expected future cash flows arising from the underlying contractual relationships. The intangible assets will be amortised over 25 years from the date of commencement of commercial activity in accordance with the terms of the contracts to which they relate. Commercial activity has not yet commenced. The ultimate supplier of gas has completed the installation of all the main components of the required upstream facilities, as has been publicly reported. Hook up and pre-commissioning of the upstream facilities is now taking place and gas supplies are expected to commence in the second quarter of 2008.

In accordance with the IAS 36 requirement in respect of intangible assets not yet available for use, management has undertaken an impairment review of the intangible assets. Management has reviewed the progress on the construction of the required facilities by the ultimate gas supplier and the various inputs into the original valuation model. Management believes that construction is now fairly well advanced. Management believes that the inputs into the original valuation model have not significantly changed so as to require a formal calculation of the recoverable amount of the intangible assets.

12 BUSINESS COMBINATIONS (continued)

Acquisition of Danagaz (Bahrain)

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

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

The fair value of the identifiable assets and liabilities at the date of the acquisition are analysed below and these are provisional:

	Fair value recognised on acquisition USD mm	***Carrying value USD mm***
Intangible assets	**7**	-
Current assets	**1**	1
Total Assets	**8**	1
Consideration	**8**	

13 INTANGIBLE ASSETS

	Oil and gas interests USD mm	*Purchase, transmission, sweetening and sale rights USD mm*	*Gas processing rights USD mm*	*Total USD mm*	*Goodwill USD mm*
At 1 January 2007	-	857	-	**857**	-
Acquisition of subsidiaries	357	-	7	**364**	**318**
Additions	22	-	-	**22**	**-**
Transfer to assets held for sale (note 17)	(7)	-	-	**(7)**	**(10)**
At 31 December 2007	372	857	7	**1,236**	**308**

Intangible assets relating to Oil and gas interest, purchase transmission, sweetening and sale rights have been elaborately explained in Business Combination note 12. Additions of USD 22 million during the year relate to exploratory and evaluation expenses incurred, which qualify for capitalisation under IFRS 6 - Exploration for and evaluation of mineral resources.

Impairment testing of goodwill

Goodwill relates to the acquisition in January 2007 of Centurion (Note 12) which enabled Dana Gas to acquire the upstream business qualification and therefore the rights to develop the gas fields in the Kurdistan region of Iraq. The recoverable amount of the above cash generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management upto a 20 year period or the economic limit of the producing field. The pre-tax discount rate applied to cash flow projections is 10% (2006: not applicable). Cash flows are generated using forecasted production, capital and operating cost data over the expected life of each accumulation.

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;

13 INTANGIBLE ASSETS (continued)

Impairment testing of goodwill (continued)

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 2007 for the impairment testing of its individual oil & gas investments.

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

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

14 INVENTORIES

	2007 USD mm	*2006 USD mm*
Spares and consumables	**40**	-

15 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2007 USD mm	*2006 USD mm*
Trade accounts receivable	**56**	1
Prepaid expenses	**1**	-
Other receivables	**21**	-
	78	1

15 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

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

			Past due but not impaired				
	Total USD mm	Neither past due nor impaired USD mm	<30 days USD mm	30-60 days USD mm	60-90 days USD mm	90-120 days USD mm	>120 days USD mm
2007	**56**	**14**	**10**	**4**	**-**	**-**	**28**
2006	1	-	-	1	-	-	-

16 BANK BALANCES AND CASH

	2007 USD mm	2006 USD mm
Cash at banks and on hand	**43**	2
Short term deposits	**498**	772
	541	774

Cash at banks earn profit at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn profit at the respective short-term deposit rates. The fair value of cash and short-term deposits is USD 541 million (2006: USD 774 million). The effective profit rate earned ranged between 3.65% and 5.15% (2006: 5.8%) per annum

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

	2007 USD mm	2006 USD mm
Cash at banks and on hand	**43**	2
Short term deposits	**498**	772
Deposits and balances with original maturity of greater than three months	**-**	(28)
	541	746

17 ASSETS HELD FOR SALE

In December 2007, following the Board of Director's approval, the Group accepted an offer to sell its 30% working interest in West Gharib concession and a binding sale and purchase agreement was signed on 9 January 2008. Accordingly, the assets and liabilities relating to the Group's interest in West Gharib concession have been classified as assets held for sale as at 31 December 2007. This concession contains several development leases and exploration lands and produced approximately 3% of the Groups current oil production by volume.

The total consideration realised by the Group, subsequent to the year end, was USD 46.4 million thereby generating a profit of USD 9.4 million in first quarter 2008 on this transaction.

	USD mm
Accounts and other receivables	7
Property, plant and equipment	15
Intangibles	7
Goodwill	10
Assets held for sale	39
Less: Accounts payable	(2)
	37

18 SHARE CAPITAL

	2007	*2006*
	USD mm	*USD mm*
Authorised:		
6,060,000,000 common shares of AED 1 each (USD 0.2728 each)		
Issued and fully paid up:		
6,000,000,000 common shares of AED 1 each (USD 0.2728 each)	**1,637**	1,637

19 BORROWINGS

Bridge Finance

Dana Gas entered into a structured Shariah compliant murabaha financing facility for an amount of USD 470 million (AED 1,723 million) to part finance its acquisition of Centurion. The security for this facility was the pledge on shares of Centurion and shares of each material subsidiary in the Centurion Group to the extent legally possible and subject to any agreements with third parties restricting taking of such security or any onerous administrative burdens in any relevant jurisdictions.
Profit for this transaction was calculated at a rate per annum equal to the annual LIBOR rate (or LIBOR equivalent rate) two days prior to any utilisation date plus a margin of:

- 1.00% p.a. for the first 6 month interval after the utilisation

- 1.25% p.a. for the second 6 month interval after the utilisation

The entire murabaha finance was settled on 31 October 2007, following receipt of funds from the USD 1 billion Shariah Compliant Sukuk Offering, as elaborated below.

Convertible Sukuk

In October 2007, the Group issued convertible bonds in the form of Trust Certificates / Sukuk-al-Mudarabah ("the Sukuk") for a total value of USD 1 billion. The Sukuk, which is structured to conform to the principles of Islamic Shariah, was approved by the Company's shareholders at an Extraordinary General Meeting held in July 2007. The Sukuk matures in 2012 and has a fixed profit rate of 7.5% to be paid quarterly. The reference share price for conversion, to which an exchange premium of 10% will apply, will be determined by the average price of the shares over a 30 day consecutive Trading Day period ending on the tenth Trading Day prior to 6 July 2008, The Sukuk is secured by way of a pledge over the shares of Dana LNG Ventures Ltd., SajGas and UGTC in accordance with the principles of Islamic Shariah.

Each Trust Certificate may be redeemed at the option of the holder at any time after 6 July 2008 to the maturity date. It may be converted into shares, or at the option of Dana Gas, into the equivalent sum of money based on the prevailing share price at conversion. Dana Gas may also voluntarily redeem the Trust Certificates under certain conditions.

19 BORROWINGS (continued)

Convertible Sukuk (continued)

The convertible bonds are presented in the consolidated balance sheet as follows:

	2007 USD mm
Proceeds from issue of convertible bonds	1,000
Less: Issuance costs	(34)
Net proceeds from issuance of convertible bonds	966
Equity component on initial recognition	(52)
Liability component on initial recognition	914
Profit accrued upto year end	15
	929
Current portion of profit classified under trade and other payables	(13)
Carrying amount of liability component at 31 December 2007	**916**

20 ACCOUNTS PAYABLE AND ACCRUALS

	2007 USD mm	*2006 USD mm*
Trade payables	**42**	7
Accrued expenses and other payables	**43**	1
Profit accrued on convertible bonds	**13**	-
	98	8

Terms and conditions of the above financial liabilities:
- Trade payables are non-interest bearing and are normally settled on 30 day terms.
- Other payables are non-interest bearing and have an average term of 30-45 days.
- Profit payable on convertible bonds is settled quarterly throughout the financial year.

21 CONTINGENCIES AND COMMITMENTS

Centurion has contracted five drilling rigs in connection with the Years 2008 and 2009 budgeted drilling program in Egypt. Four of these rigs will be supplied in 2008. In the event that Centurion does not proceed with planned drilling with these rigs, Centurion would be obligated to pay the rig operators a variable rate based on days not utilised under the contracts. The maximum commitment at 31 December 2007 related to these contracts is approximately USD 35.4 million which could be reduced by farm-outs to other operators.

In May 2004, Centurion was awarded the West El Manzala and West El Qantara blocks in the Nile Delta of Egypt. Centurion has committed to spend USD 11 million on the West El Manzala block and USD 7 million on the West El Qantara block during the first phase of exploration. These commitments are supported by performance bonds issued by BNP Paribas and supported by Export Development Canada. As at 31 December 2007, Centurion has fulfilled its spending commitment related to the West El Manzala block and was notified that the USD 11 million West El Manzala letter of guarantee has been released by the Egyptian Government. To date, Centurion has incurred costs in excess of its commitment related to the West El Qantara block and the guarantee is expected to be released in 2008, subject to Government audit and approval of the costs.

In March 2006, Centurion entered into an agreement with CTIP Oil and Gas Limited (“CTIP”) to acquire a 25 percent working interest in the West El Manzala and West El Qantara Concessions. Following the closing of this acquisition, the Company held a 100 percent participating interest in each of these Concessions. As agreed under the terms of the acquisition agreement Centurion has paid USD 6.5 million and accrued for an additional USD 6.5 million liability, (which is due January 2008), as a result of the first Government approved Plan of Development in the West El Manzala Concession. In addition, Centurion has agreed to pay additional payments that could total up to a further USD 12.5 million as and when specific discovery volumes and development objectives are met. Centurion has also granted a three percent net profits interest to CTIP on future production from the Concessions.

On 14 March 2006, Centurion signed a Production Sharing Contract (“PSC”) and formal granting by the Joint Development Zone of its 10 percent (gross) equity interest, 9.5 percent (net) in Block 4 of the Nigeria/Sao Tome. Under the PSC Centurion has paid USD 6.8 million being its share of the total signature bonus. Centurion is obligated to pay USD 5.0 million (net) for its share in the minimum expenditure of USD 53 million for the block. This obligation is expected to be paid through 2008. This commitment is supported by a performance bond issued by BNP Paribas and supported by Export Development Canada.

21 CONTINGENCIES AND COMMITMENTS (continued)

Kurdistan Region of Iraq (KRI) Project

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

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

The Khor Mor Field development will involve the hook up, testing and re-commissioning of 5 existing wells, appraisal of the reservoir including the drilling of at least 2 additional gas wells, installation of separation facilities and an LPG extraction plant, and laying of around 180 kms of pipelines. The initial gas production from Khor Mor development is expected to be circa 150 MMscfd, rising to 300 MMscfd in the subsequent phase. The initial investment in the Khor Mor development is expected to be around USD 370 million, rising to USD 570 million in the second phase.

The Chemchamal appraisal programme includes acquiring seismic data, re-entry and re-testing of an existing well and drilling 2 appraisal wells. The estimated cost of this work programme is around USD 45 million.

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

Dana Gas has entered into two letters of credit in June 2007 in relation to the purchase of pipeline materials for the development project in the Kurdistan Region of Iraq. The Company's undertaking with respect to the letters of credit is approximately USD 26 million with the balance USD 26 million with Crescent Petroleum in respect of its 50% share.

22 SHARE BASED PAYMENT PLANS

The expense recognised for employee services received during the year is shown in the following table:

	1 January 2007 to 31 December 2007 USD mm	*20 November 2005 to 31 December 2006 USD mm*
Expense arising from share-based payment transactions	**2**	1
	2	1

The share-based payment plans are described below.

Key Employee Long Term Incentive Plan ("LTIP")

The LTIP seeks to align employee and shareholder interests and reward company and employee performance over an extended period through the payment of cash bonuses calculated by reference to the market price of one share as compared to its exercise price determined at the time of grant. Options in the plan vest upon completion of a defined service period. Pursuant to the shareholder's approval and resolution of the Board of Directors in 2007 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 2006 were converted from cash-settled to equity-settled share options. In fiscal 2007, new options were granted over 14,733,731 shares with average fair value of AED 0.82 per option.

Pioneer Grant

The Pioneer Grant is a one-time option grant aimed to recognize the pioneering spirit of the founding members of the management team of Dana Gas PJSC. Options in the plan vest upon completion of a defined service period. Pursuant to the shareholder approval and resolution of the Board of Directors in 2007 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 2006 (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, new options over 1,650,000 shares with average fair value of AED 0.90 per option were awarded to individuals who did not receive a share option grant in 2006.

Regulatory approval to amend the LTIP and Pioneer Grant rules, thereby enabling use of new shares to satisfy the share options, is awaited.

23 RELATED PARTY TRANSACTIONS

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

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

	2007		2006	
	Sales	**Fees for management services**	Sales	Fees for management services
	USD mm	**USD mm**	USD mm	USD mm
Associated companies	**1**	**-**	-	-
Major shareholders	**-**	**2**	-	2
	1	**2**	-	2

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

Compensation of key management personnel

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

	2007	2006
	USD mm	USD mm
Short-term benefits	**8**	1
Stock options	**2**	1
	10	2

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Credit risk
The Group trade receivables relate only to the Egyptian Government, arising from its operations in Cairo. The maximum exposure is the carrying amount as disclosed in Note 12.

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

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

Year ended 31 December 2007

	On demand USD mm	***Less than 3 months USD mm***	***3 to 12 months USD mm***	***1 to 5 years USD mm***	***>5 years USD mm***	***Total USD mm***
Convertible bonds	-	-	-	**1,000**	-	**1,000**
Trade and other payables	-	**98**	-	-	-	**98**
Finance lease obligations	-	-	**1**	-	-	**1**
Asset de-commissioning obligation	-	-	-	-	**4**	**4**
	-	**98**	**1**	**1,000**	**4**	**1,103**

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Year ended 31 December 2006

	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
Trade and other payables	-	8	-	-	-	8

Capital management
The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.
The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2007 and the period ended 31 December 2006. Capital comprises share capital and retained earnings, and is measured at USD 1,889 million as at 31 December 2007 (2006: USD 1,815 million).

25 FINANCIAL INSTRUMENTS

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

	Carrying amount 2007 USD mm	**Fair value 2007 USD mm**	Carrying amount 2006 USD mm	Fair value 2006 USD mm
Financial assets				
Cash and short term deposits	**541**	**541**	775	775
Financial liabilities				
Convertible bonds	**968**	**968**	-	-
Obligations under finance leases	**1**	**1**	-	-

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

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