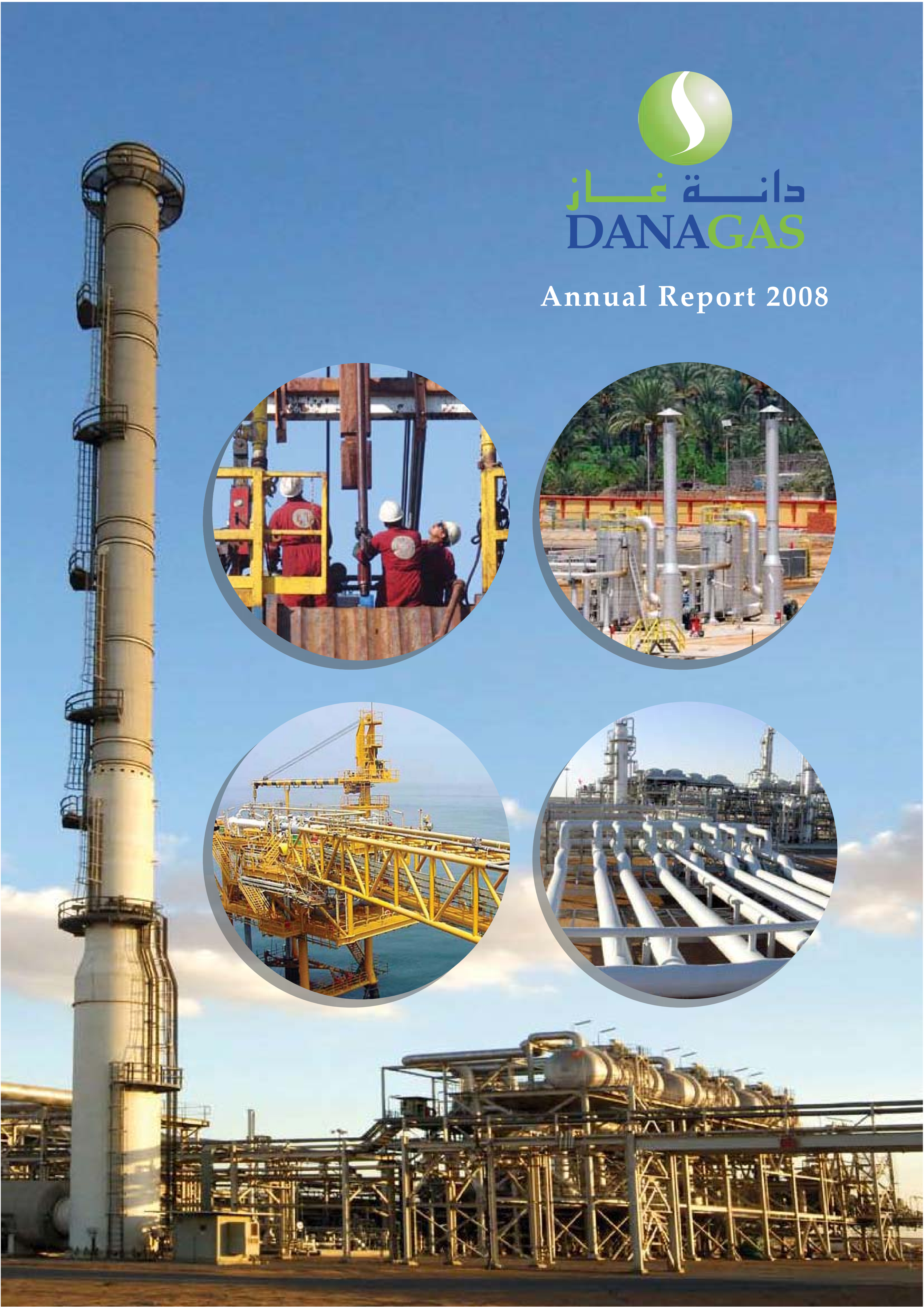
دانة غاز
DANAGAS

Annual Report 2008



Glossary

bcpd	barrels of condensate per day
bopd	barrels of oil per day
boepd	barrels of oil equivalent per day
Bcf	billions of cubic feet
mbopd	thousands of barrels of oil per day
mboepd	thousand of barrels of oil equivalent per day
MMb	millions of barrels of oil
MMboe	millions of barrels of oil equivalent
MMscfpd	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.)

دانـــة غـــاز
DANAGAS

The Middle East's Leading Independent Natural Gas Company

Annual Report and Accounts 2008

Clean Energy for the Region's Tomorrow

• LPG Plant at El Wastani in the Nile Delta Egypt •

Our vision

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

Our Strategy

Natural gas is the fuel of the future and the MENASA region contains 45% of the World's gas reserves, but currently provides less than 20% of its production.

We see this as a unique opportunity for the region's economic growth whilst creating value for our shareholders.

Our combined strategy meets this opportunity through organic growth and selective strategic acquisitions building on our existing asset base and by leveraging our unique regional relationships, wide regional shareholding and our technical and financial capabilities.

Our Strengths

We value our independence and private sector approach-they give us flexibility to rapidly capitalise on opportunities in the region, and define our competitive edge.

We maintain a regional perspective, and are the only company to give our investors a true exposure to the rapidly growing MENASA gas industry.

Our diversified and experienced team of management and staff are the core of our success.

In addition, our Board of Directors and International Advisory Board provide unique insight and access to opportunities across the region

2008 has been a solid year of exceptional performance for Dana Gas

In Egypt, an excellent performance of five consecutive gas discoveries have led to a doubling of the Group's oil and gas reserves, further cementing the position of Dana Gas amongst the country's leading energy companies.

In the Kurdistan Region of Iraq, Dana Gas has commenced gas production, having constructed gas production facilities and a 180 kilometre pipeline connecting the Khor Mor field to a new power station at Erbil in a record breaking 15 months.

Closer to home, Dana Gas has made its entry into the GCC offshore gas exploration and production sector with the Zora Field in the Sharjah Western offshore concession.

These and other ongoing achievements are setting the stage for robust increases in production coupled with increasing, reliable cash generation.

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Centurion	SAJGAS	UGTCL	CNGCL	Iraqi Kurdistan Gas Project	DANAGAZ	Gas Cities
100%	100%	100%	35%	50%	66%	50%

Contents

Focused Area of Interest - the MENASA Region

Egypt Nile Delta:

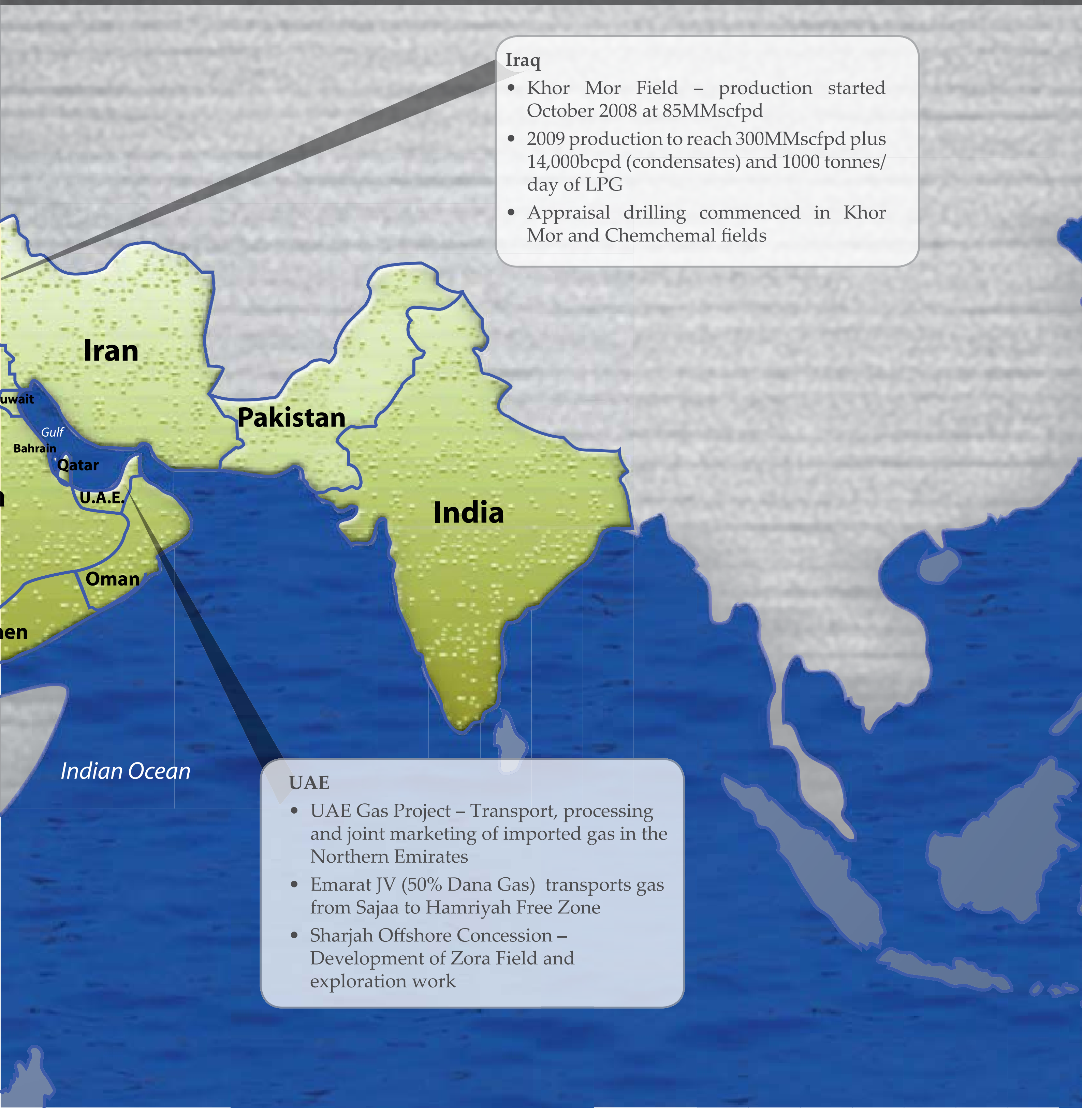
- 2008 exit rate 31,640 boepd
- Exploration – Reserves doubled in 2008
- Exploration – 16 well programme in 2009

Upper Egypt

- 50% operated interest producing from Al Baraka

Gulf of Suez

- Development of LPG recovery plant
- Production start 4Q 2010



Iraq

- Khor Mor Field – production started October 2008 at 85MMscfpd
- 2009 production to reach 300MMscfpd plus 14,000bcpd (condensates) and 1000 tonnes/day of LPG
- Appraisal drilling commenced in Khor Mor and Chemchemal fields

UAE

- UAE Gas Project – Transport, processing and joint marketing of imported gas in the Northern Emirates
- Emarat JV (50% Dana Gas) transports gas from Sajaa to Hamriyah Free Zone
- Sharjah Offshore Concession – Development of Zora Field and exploration work

Highlights of 2008

- Production commenced in October 2008 from Khor Mor Field in the Kurdistan Region of Iraq in a record time of only 15 months from project start with initial production at 85MMscfpd through Early Production Facilities (EPF)

- Production in Egypt achieved a year end exit rate of 31,640 boepd and with a total annual production of 10.6 MMboe

- Significant year end reserves additions from exploration success in Egypt at El Basant and Salma accumulations in the Nile Delta with combined reserves in excess of 180Bcf, providing a 362% reserves replacement ratio, based on proved and probable reserves for 2008

- Gross operated gas production at year end from operations in Egypt and Kurdistan Region of Iraq reached 220MMscfpd, more than 40,000 boepd

- Awarded the Sharjah Western Offshore Concession 25 year Petroleum concession by the Government of Sharjah and commenced development planning activities on the Zora Field

- Cash flow generated from operations (Earnings before Interest, Tax , Depreciation and Amortisation) of AED 575 million, an increase of 20% on 2007

- Net Profit of AED 120 million a bottom line growth of 8% from 2007

- Capital expenditure of AED 766 million (US$ 209 million) in the Kurdistan Region of Iraq and AED 330 million (US$ 90 million) in Egypt

Activities for 2009

- Increase Company petroleum production by over 70% to 68,000 boepd by year-end with increased production from Egypt and Kurdistan Region of Iraq
- Complete construction of gas processing facilities at Khor Mor field in Kurdistan Region of Iraq to progressively increase production from 85MMscfpd to 300MMscfpd
- New discoveries in Egypt to be brought into production, together with further developmental activities. El Basant and Azhar discoveries to commence production during the second quarter and development alternatives for Salma to be progressed
- Continued exploration activity in Egypt to follow up success in 2008
- Fast track development of the Zora Gas Field in Sharjah
- Start-up of UAE Gas Project. (sweetening plant in Sharjah successfully commissioned and ready to receive the feed gas from the supplier)
- To further expand 'Gas Cities' concept in new locations across the region
- Pursue acquisitions (asset and corporate) and new projects in MENASA region

• Opening of Dana Gas new head office on 25th March 2009 by H.H.Shaikh Ahmed bin Sultan Al-Qasimi, Deputy Ruler of Sharjah & Honorary Chairman of Dana Gas •

*• **Front row (left to right) :** Mr. Adib Abdullah Al-Zamil (Saudi Arabia); Dr. Adel Khalid Al-Sabeeh (Kuwait), Deputy-Chairman; H.H.Shaikh Ahmed bin Sultan Al-Qasimi (U.A.E), Honorary Chairman; Mr. Hamid Dhiya Jafar (U.A.E), Executive Chairman; Mr. Said Arrata (Canada/Egypt)*

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

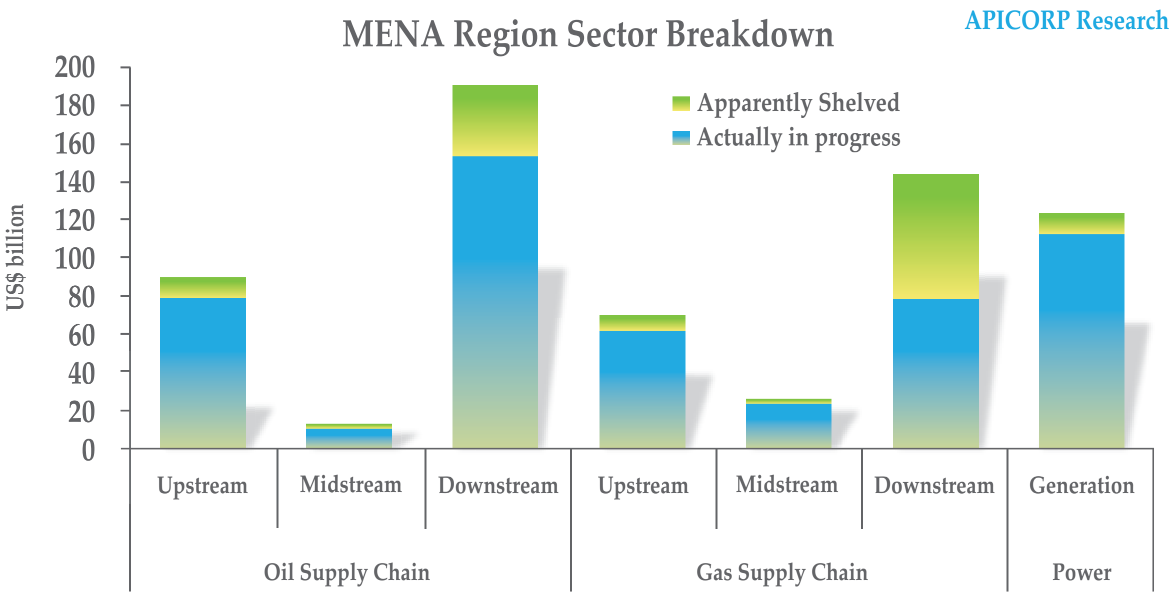
*• **Not shown in the picture :** Mr. Rashad Mohammed Al-Zubair (Oman)*

The Business Environment

Historically, the region has been a major player in hydrocarbon supply with 45% of the world's Gas Reserves and still less than 20% of supply. The strong economic growth of recent years has now transformed the region into a major gas demand market as well.

According to a recent report from Facts Global Energy (November 2008), Middle East gas consumption stood at only 10% of global demand in 2007 but is expected to grow between 6-7% annually through 2020. Power, industrial and petrochemical investments combined with cheap feedstock, continuing subsidies, regional spending power and major infrastructure investments will continue to feed the growth in gas demand.

Although construction has currently been tempered by the global downturn, new projects in the upstream and midstream sectors remain largely in place as can be seen from APICORP's recent projections for investment projects.



As the world's economy remains in recession, markets are looking towards regional bright spots. Despite a significant slowdown in OECD countries, the MENA region, its oil exporters and the GCC are forecasted to grow more quickly than developed nations and are expected to be one of the engines of global recovery.

Economic growth (%) - actual and forecast

	2005	2006	2007	2008	2009	2010
World	3.5	4	3.8	2	-2.6	1
US	2.9	2.8	2	1.1	-3.1	0.7
Japan	1.9	2.1	2.4	-0.7	-5.9	0.2
MENA	5.6	5.6	5.8	6	2.4	4.6
Oil Exporters	6.1	5.6	5.9	6.1	2.5	5
GCC	6.9	5.9	5.5	6.5	2.1	5.4

Economic Intelligence Unit : March 2009

Executive Chairman's Statement, (made at Dana Gas AGM 22 April 2009)

The year 2008 has been an excellent one for Dana Gas as we become an important and highly visible player in the emerging energy infrastructure of the MENASA Region. The Company continues to build on its base focusing as we always have done on our core natural gas business. Our vision remains unchanged and as valid as when we were first created over three and a half years ago: to be a force for change as a regional private sector energy company playing an active role in developing the rapidly growing natural gas business of the MENASA Region. Your Company is in safe, secure hands and is confidently building for the future.

Our financial performance in 2008 was solid. Revenue for the year at AED 1.14 billion was up 10%, cashflow from operations at AED 575 million was up 20%, and the net profit at AED 120 million was up 8% as compared to 2007. In 2008, over AED 1 billion was invested in careful and sound investments in the natural gas industry that will deliver robust growth for our shareholders whilst benefiting the countries in which we work. We are well funded thanks to our highly successful $1billion Sukuk launched in late 2007, as well as our solid asset base which generates sufficient cash to cover ongoing expenditures and support our growth strategy. Gross operated gas production reached 220MMscfpd in 2008, and we are set to increase this figure by 70% in 2009. The majority of our revenues are from fixed long-term gas sales contracts, affording a protective cushion from volatile oil prices.

I would now like to review our operations starting with Egypt. We are happy to report that five consecutive exploration discoveries in our Nile Delta Concessions were made in 2008, doubling our reserve base in the country. One of these discoveries, the El-Basant well, is now in production. Dana Gas is proceeding with a further 16 well exploration programme during 2009 to deliver additional production and growth. We have also completed our first successful horizontal well at the El-Wastani Field which will have a significant positive impact on our plans as the success of this technique will enhance productivity at our existing fields. Dana Gas' production in Egypt ended the year at 31,640 barrels of oil equivalent per day, and is set to increase over the coming year as our new discoveries come on stream. Also in Egypt, the LPG recovery plant project is currently under development at Ras Shukeir on the Red Sea Coast. This project is being carried out by our affiliate Danagaz, alongside EGAS and APICORP, and is due for completion and production in late 2010.

I turn now to the Kurdistan Region of Iraq, where our project in partnership with Crescent Petroleum has been widely acknowledged as a world class achievement. At USD 650 million, this project is the largest private sector investment in Iraq today, as well as being Iraq's largest private sector oil and gas project for several decades. It has involved the rehabilitation of the giant Khor Mor gas field, installation of new state-of the-art production and gas processing facilities, and the construction of a 180 kilometer high pressure gas pipeline from the field to a newly constructed power station at Erbil over extremely difficult and challenging terrain, commencing production in just 15 months after project implementation. Today, Erbil power station is running on natural gas supplied by our project and supplying much needed electricity to the people of the region and contributing positively to the overall power requirements of Iraq. Following completion of our main LPG extraction plants later this year, our production is set to treble to 300MMscfpd, in addition to a

significant volume of petroleum liquids which is almost twice our current production in Egypt. The potential for growth of our investment in this stable region of Iraq is enormous both from the point of view of the market as well as the size and quality of the Khor Mor and Chemchemal Fields which are being further appraised and taken to the next stage of development.

Dana Gas is also actively promoting our strategy of regional gas use that leads to a cleaner, safer environment with the additional benefit of generating local employment, through our proprietary Gas Cities initiative. Our first such initiative, the Kurdistan Gas City project, will be a major gas-utilisation complex promoting investment in a variety of gas-related industries that will boost the local economy and address local needs such as mass training and job creation in the many tens of thousands. As an important first step, we were officially assigned a 461 million square foot site near Chemchemal by the Ministry of Natural Resources in the Kurdistan Region of Iraq towards developing the Kurdistan Gas City, the first of several we are pursuing in the MENASA Region. We have already initiated discussions with the Egyptian authorities to establish the Egypt Gas City and a number of further announcements will soon follow.

We are also able to report positive progress on the UAE Gas Project which involves the import of gas by our partner Crescent Petroleum from the National Iranian Oil Company (NIOC), for processing and transportation and joint marketing by Dana Gas within the UAE. I am pleased to report that the ultimate supplier of this gas, NIOC, has now completed the construction of its upstream infrastructure in Iran, after a three year delay, and has recently appointed a French contractor, IPEDEX, to complete its commissioning work. Our facilities are in a state of readiness to receive the gas as soon NIOC's work is completed, hopefully later this year.

In the UAE we completed our joint venture project with Emarat to own, manage and operate the Middle East's first common user gas pipeline with a design capacity of 1000MMscfpd. This pipeline is already transporting gas in Sharjah from Sajaa to Hamriyah. Another important project in the UAE constitutes our first entry into the GCC upstream sector through the Zora Gas Field development , which Dana Gas is undertaking under a 25-year concession. Production from this important project in 2010 will provide further needed gas to the UAE domestic market.

The natural gas sector continues to show extremely strong fundamentals despite the recession currently miring the global economy. The MENASA Region is unquestionably the world's largest player in hydrocarbon supply, with 45% of global gas reserves yet less than 20% of its supply. Additionally, the robust economic growth in recent years has transformed the Region into a major gas market in its own right which is projected to have one of the world's strongest gas consumption markets in the years ahead. A recent study has forecast regional gas consumption growth of between 6-7% annually through 2020. We certainly share this positive long-term view of our industry, which has been enshrined in Dana Gas' robust five year business plan and entry strategies in our Region.

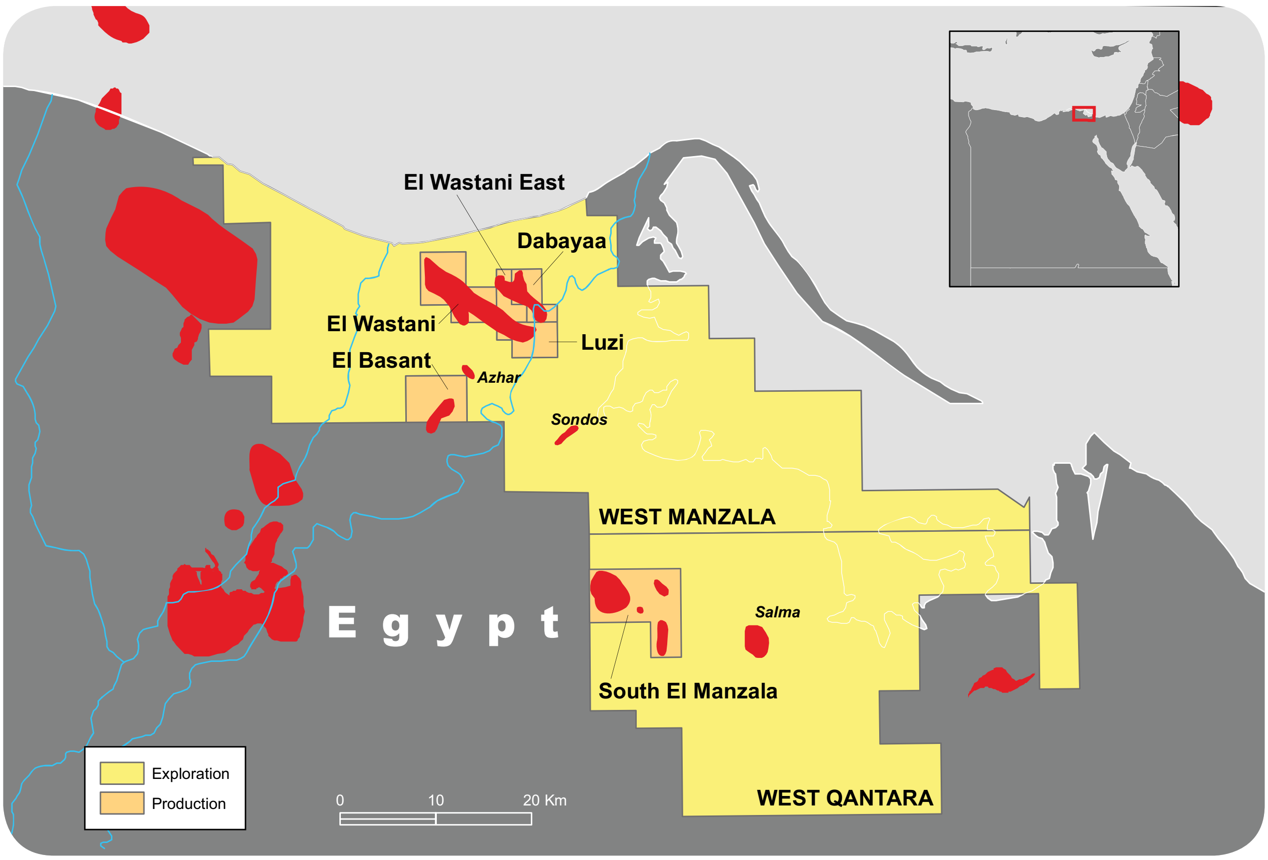
To meet our ongoing and expanding operations, the Company's total manpower has grown to around 500 people. In line with this expansion of our organization, Corporate Guidelines have been developed that exceed regional best-practice and meet international best-in-class standards. A new Head Office has been opened in Sharjah which adds to our network of four regional offices in Saudi Arabia, the Kurdistan Region of Iraq, Egypt and the UK. This new office supports a growing number of projects and business development activities reflecting our commitment and confidence in our Region.

World markets have seen extreme volatility in 2008 and this has negatively affected share prices across the region including our own which has been trading well below its fair value and earning potential. Nevertheless I am pleased to note that the Dana Gas share price has risen by over 55% in 2009, outperforming the Abu Dhabi Stock Market Index. In the current financial climate, raising new sources of finance to support our growth ambitions is more challenging than hitherto, as well as time-consuming on management resources and relatively expensive when compared to the past. Therefore, I am sure you will appreciate that this year's cash earnings are best retained for investments in support of the Company's continuing growth and enhancing shareholder value. Enhancing robust shareholder value is our singular aim, and we appreciate the trust and confidence that you have placed in us during our critical foundation years.

Our journey in the space of just three short years since our foundation has truly been a spectacular one by any standards. I owe a very special debt of gratitude to our Board of Directors who are coming to the end of their First Term of office. Our Honorary Chairman, H.H. Shaikh Ahmed bin Sultan Al-Qasimi, and all our Board Members have all been highly energized and pro-active, and have provided the guiding light and direction for the success of the Company. They have worked tirelessly and extremely constructively as an inspiring cohesive group. It has been my privilege, pleasure and pride to have served as their Executive Chairman over the past three and a half years. On behalf of our shareholders, I thank and wish them all well, and look forward to welcoming most of them back for a Second Term.

The most prized asset of your Company are its people. I would therefore like to pay tribute to the excellent and talented staff across the Dana Gas organization whose commitment, skill and dedication have made this truly a world-class year possible. Thank you to each and every one of you, as well as your families, for making our successes possible.

Finally, I would like to thank you, the esteemed shareholders of Dana Gas, for your continued interest and support of Dana Gas over the past three years; you may rest assured that we will work as hard as ever to continue building on our successes. Our goals for 2009 aim for even greater successes than in 2008; they will be undoubtedly be challenging, but we look forward to achieving them inshallah.



• Dana Gas Egypt Nile Delta Concessions and Development leases •

Business Review

Egypt

2008 was a year of excellent performance for Dana Gas' 100% owned subsidiary company, Centurion Petroleum Corporation. A successful ongoing exploration programme has already doubled the Company's reserves and during the year 10.6 MMboe of gas, LPG, crude oil and condensate were produced through the consistently reliable production facilities. By the end of February 2009 five exploration discoveries had been announced.

This has been achieved by a committed and strong team of outstanding professionals which has been increased from 70 to 130 staff over the year to manage the significantly increased workload arising from the drilling programme and resultant activity required to develop our discovered fields. The scale of operations in Egypt is set to double in the coming years.

Exploration

The aggressive exploration drilling programme, focussed on the Nile Delta Concessions, doubled the company's reserves and provided sufficient additional information to substantially increase the chance of further success from the continuing exploration programme. At year end 2008 the booked reserves, as certified by leading independent engineers Gaffney, Cline and Associates, on a proven plus probable basis had increased from 66.7 MMboe to 94.3 MMboe, with proven plus probable plus possible reserves increasing from 86.4 MMboe to 157.7 MMboe, after production of 10.6 MMboe.

In early 2008, Dana Gas announced its intention to pursue an aggressive drilling programme. At that time, the drilling rig market was extremely tight and in order to obtain the required quality of equipment five new rigs were contracted. The continuing over-heated market conditions resulted in these rigs being delivered several months later than anticipated. Consequently, rather than 14, just six exploration wells were completed during 2008 with two further wells being spudded before year end, both of which later discovered gas. In spite of this, we delivered the 400Bcf of reserves that had been targeted by the full programme and at just over half the originally budgeted cost.

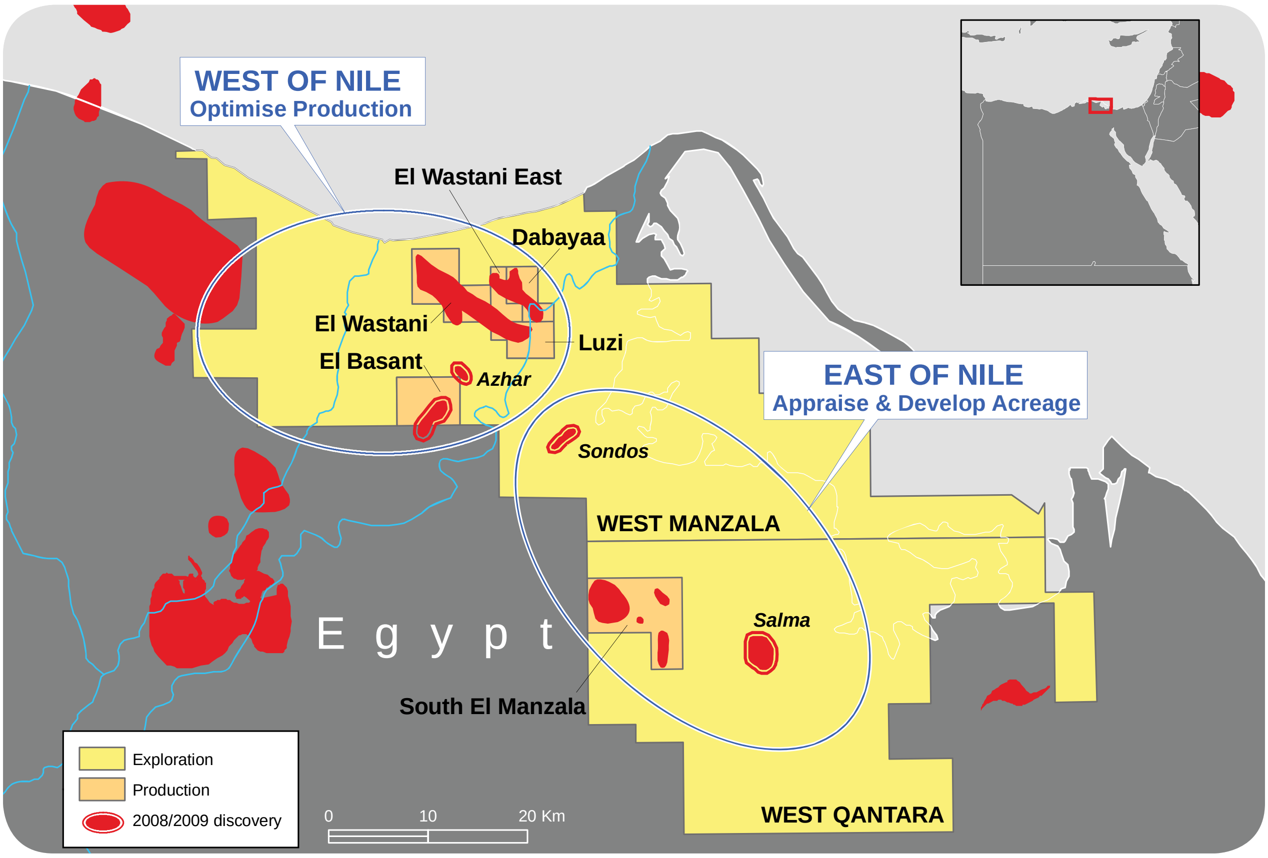
The 2008 well results are detailed below; in addition the results of the two wells spudded in 2008 and completed early in 2009 are also reported:

Date	Well	Concession	Results
Aug 08	Abu Gabal	W Manzala	Flowed non commercial quantities of gas
Sept 08	W Baraka-1	Komombo	Encountered non commercial volumes of oil
Oct 08	Shahin-1	W. Qantara	Encountered water wet sands in Sidi Salim formation
Nov 08	El Basant-1 (originally named Al Tawil-1)	W. Manzala	Discovery - Tested gas at 23.5 MMscfpd and condensate at 1027 bcpd in the Qawasim formation
Dec 08	El Basant-2	W. Manzala	Discovery - Tested gas at 10.5 MMscfpd in the Qawasim Formation
Dec 08	Salma-1	W. Qantara	Discovery – Tested gas at 17.2 MMscfpd and condensate at 415 bcpd in the Abu Madi formation
Feb 09	Sondos-2	W. Manzala	Tested dry gas at 11MMscfpd from the Kafr El Sheik formation
Feb 09	Azhar-1	W. Manzala	Tested gas at 15.1 MMscfpd and 444 bcpd condensate from Qawasim the formation

Drilling operations in the Nile Delta

In addition to the successes enjoyed in 2008 our exploration programme has significantly added to the Company's knowledge of the acreage and has opened up a number of new prospects for priority drilling in 2009. The entire portfolio of some 130 prospects contains risked reserves of some 4Tcf of gas, as audited by Gaffney, Cline and Associates, and the increased knowledge gained in 2008 has significantly enhanced the chances of continued exploration success. The majority of this resource is located in the deeper Sidi Salim formation.

For 2009 our exploration programme will continue with a total of 16 wells, targeting the Kafr El Sheikh formation, the Messinian (Qawasim and Abu Madi formations) and the deeper Sidi Salim formations.



• *Focus areas of development activity in Nile Delta, Egypt* •

Production and Development

The Company produced gas, LPG and condensate from its five Development Leases, El Wastani, El Wastani East, South El Manzala, Luzi and Dabayaa throughout the year. The El Wastani plant performance was good throughout the year with over 95% uptime achieved. Total production during the year was 10.6 MMboe (2007 10.6 MMboe), made up of 51.5 Bcf of gas, 1.3 MMb of condensate, 0.7 MMb of LPG and 0.03 MMb of oil. The average production rate amounted to 29.0 mboepd.

During 2008 three successful development wells were drilled on the Company's Development Leases, El Wastani 14 and El Wastani 16 both of which were completed in the Abu Madi formation, and Dabayaa 3, which was completed in the Qawasim formation. These wells added a combined deliverability of approximately 30 MMscfpd and along with further reservoir studies and work added 62 Bcf equivalent to the Company's proven reserves.

As the Company has production capacity established in the region, many of the fields that were discovered in 2008 and early 2009 can be brought on stream very rapidly and cost effectively. Production from each of the El Basant, and Sondos discoveries will start in during 2009, with El Basant commencing in March 2009.

The exploration success of 2008 has led to two focus areas for development being formed by the Company, the "West of the Nile" area focussed around the Company's existing El Wastani gas processing and liquid extraction facilities and secondly to the "East of the Nile" area in the vicinity of the Company's South El Manzala facility.

To the West of the Nile the existing El Wastani plant has a capacity of 160MMscfpd which handles production from the existing El Wastani, El Wastani East, Luzi and Dabayaa Development Leases. The El Basant discovery, 17 kilometres away from the El Wastani plant, is being tied back to this plant via a 12" diameter gas pipeline and a 6" diameter condensate line. The Azhar discovery is near to the pipeline route and will be tied into this line. Production from the existing producing fields combined with production from these two discoveries will maintain throughput from the plant at capacity for a number of years. Studies are being conducted to determine whether it will be viable to debottleneck the plant or to expand it to increase throughput, which will partly depend on whether further gas reserves are found in the area. The additional available well deliverability will allow a proposed compression scheme at El Wastani to be optimised and allow production to be managed to maximise liquid production by producing from the reservoirs with the richest gas.

To the East of the Nile a new front has opened up for the Company with the discovery of the Salma field. Further exploration drilling is being focussed in this area to ascertain whether a new gas treatment plant, possibly with LPG recovery facilities can be cost effectively built. Further exploration success in this area will lead to virtual replication of the Company's operations to the West of the Nile.

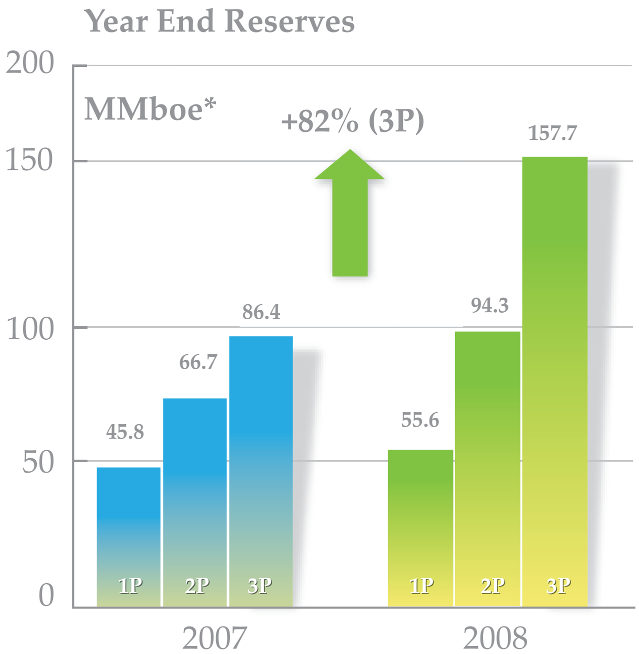
In addition, the gas processing facilities at South El Manzala, which are designed to handle dry gas only, will be used to produce the Sondos discovery. This field lies on the pipeline route leading to these facilities so it can be tied back very rapidly and will provide additional gas production from the middle of 2009.

In Upper Egypt, the Company produced from its Al Baraka Development Lease on the Komombo Concession throughout the year. The first producing well, Al Baraka-1 was stimulated by means of a hydraulic fracture which was a success and achieved an increase in production rate. The Al Baraka-2 development well confirmed oil in the Abu Ballas formation and proved oil in a new formation, Six Hills.

The West Gharib Concession, a non-core asset which produced small volumes of oil from seven Development Leases, Arta, Fadl, Hana, Hoshia, W Hoshia, N Hoshia and S Rahmi, was sold to TransGlobe, with the transaction completing in February 2008.

Reserves

Gaffney, Cline & Associates ("GCA") have carried out an independent evaluation of Dana Gas Egypt's hydrocarbon reserves. Year end reserves for the Company, in MMboe, were as follows.



1P : Proven
2P : Proven + Probable
3P : Proven + Probable + Possible

Egypt Gulf of Suez – Ras Shukheir Natural Gas Liquids Extraction Plant

The Company, through Danagaz Bahrain is engaged in a project to develop a natural gas liquids extraction plant in Egypt in partnership with the Egyptian Natural Gas Holding Company (EGAS) and the Arabian Petroleum Investments Corporation (APICORP). Dana Gas has a net interest of 26.4% in this project through its 66% holding in Danagaz, Bahrain.

This project involves the design, fabrication and construction of a high efficiency natural gas liquids extraction plant near Ras Shukheir on the western shore of the Gulf of Suez. The new plant will act as a straddle plant on the existing natural gas pipeline grid in the Ras Shukheir area and strip propane and butane from the relatively gas liquids-rich associated gas from neighbouring oil fields. The maximum inlet gas capacity of the plant will be 150 MMscfpd which at this throughput will yield approximately 120,000 tonnes per annum of propane, which will be exported by sea, and 12,000 tonnes per annum of butane, which will be supplied to local facilities owned by EGPC, with the residual gas, some 143MMscfpd, being returned to the pipeline.

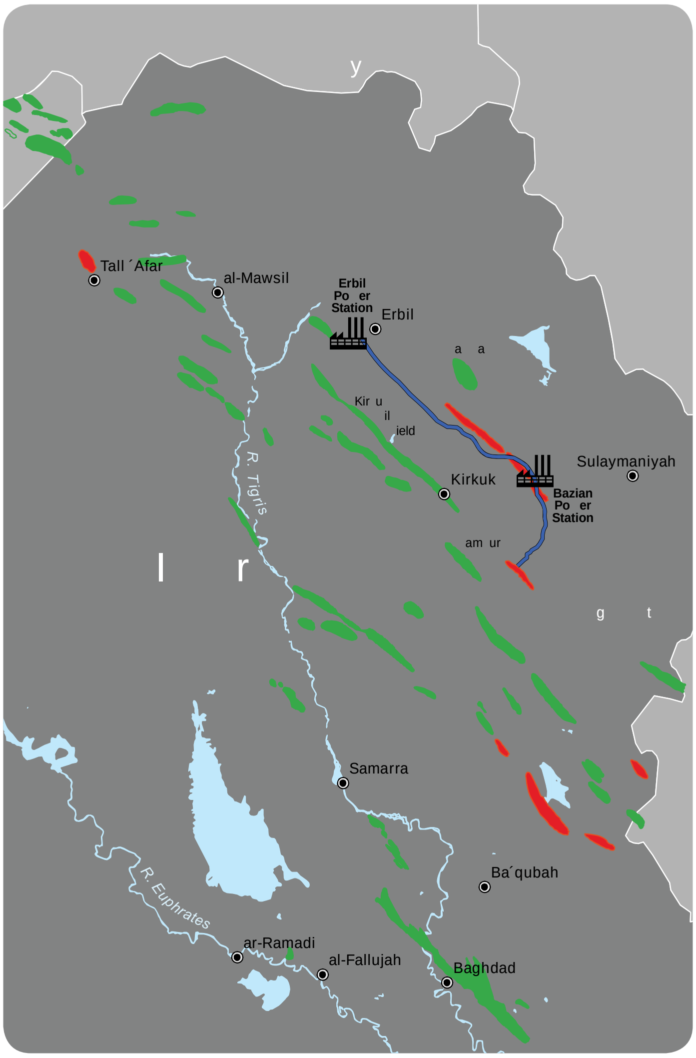
During 2008 bids were solicited from qualified bidders to supply a pre-packaged natural gas liquids recovery plant to be delivered and constructed at the Company's site near Ras Shukheir. Bids were received in early 2009 and following evaluation it is expected that the contract will soon be awarded, aiming at a planned completion in the third quarter of 2010.

Iraq - Kurdistan Region

One of the outstanding achievements for Dana Gas during 2008 was to bring the Khor Mor Gas Field in the Kurdistan Region of Iraq into production, the primary phase of the project implementation being completed in just 15 months.

Production started on 1st October 2008 through Early Production Facilities at an initial production rate of 85 MMscfpd and 4,300 bpd of condensate with gas being transported through a newly constructed pipeline to a power station at Erbil, which is supplying electricity to the region.

The long term contract for this development was signed in April 2007, when the Group entered into agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources. The initial focus was to develop, process and transport natural gas on a fast-track basis from the Khor Mor Gas Field (Khor Mor Project), including the extraction of LPG and condensate, in order to provide natural gas supplies to fuel domestic electric power generation plants that were under construction in the cities of Erbil and Chemchemal, with generating capacities of 500MW and 750MW, respectively.



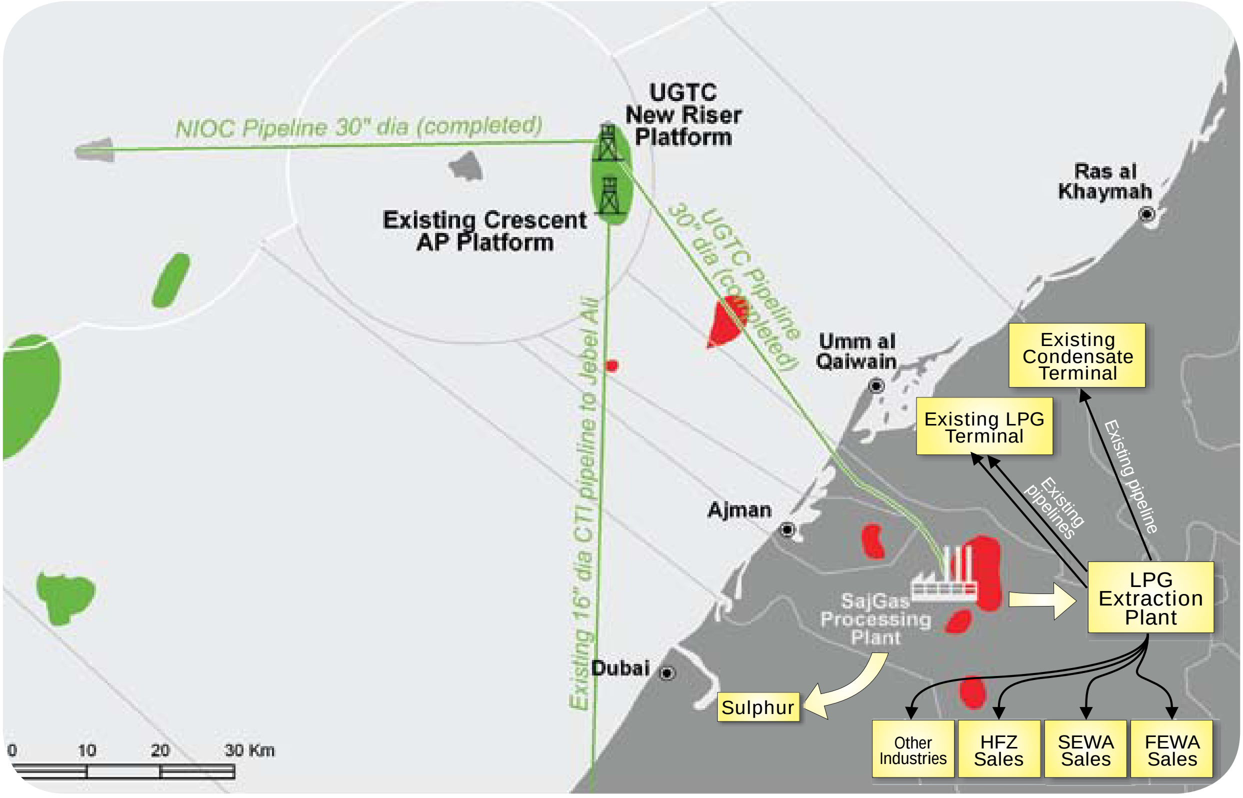
• Khor Mor and Chemchemal Fields Location Map - Kurdistan Rgion of Iraq •

Those power stations were due for completion in the autumn of 2008 (Erbil) and mid 2009 (Chemchemal) and both required a reliable gas supply. In order to meet this timescale Dana Gas, and its partner Crescent Petroleum, undertook the development project on a fast track basis which many in the industry have acknowledged to be a world class achievement. Of key importance was the construction of a 180 kilometre high pressure gas pipeline, 24 inches in diameter, running from the Khor Mor field to the power station at Erbil, routed via Chemchemal. The construction of a major piece of infrastructure such as this required the co-operation of the Regional Government, local authorities, land owners and farmers, in order to enable the clearing of a 30 metre corridor along which construction activities can follow. Although many issues raised by concerned parties were encountered they were swiftly resolved and no undue delays arose. Construction in this area with little infrastructure in place was challenging and involved multiple river crossings, road crossings and difficult undulating terrain. The entire corridor was cleared by the end of February 2008; the required equipment was sourced world-wide and as a result of intense project management efforts with many simultaneous work fronts managed by Company's experienced personnel, the major elements of the pipeline construction were completed by the end of August 2008. By the end of September the pipeline had been hydro-tested, dewatered and dried, and ready to transport gas.

Construction of the LPG plant, due to unforeseen delays in the civil works and subsequent activities (the site also needed to be cleared of ordinance and mines), was not able to follow the rapid progress of the pipeline. Accordingly, because of this set-back Early Production Facilities (EPF) were rapidly sourced and installed so that sufficient gas could be produced from the Khor Mor Field to meet the immediate needs of the first power station at Erbil in the autumn of 2008. The EPF was sourced from the United States, transported and installed within only 4 months, again a record breaking achievement. The EPF had to be designed to connect to the refurbished wells, newly installed flowlines and inlet facilities that will ultimately be used in the full development.

Production commenced on 1st October 2008 at a rate of 85MMscfpd together with condensate at a rate of approximately 4,300 barrels per day. The produced gas is being delivered to the power station at Erbil where three of the four 125MW units are running on gas and the fourth is using diesel to generate a total of 500MW of electricity. The first 125MW unit of the Chemchemal power station is scheduled to receive gas at the beginning of the second quarter of 2009 and the second 125MW unit is scheduled for completion within a month thereafter. The remaining four units are scheduled to receive gas by the end of 2009. This timing broadly coincides with the construction and commissioning schedule of the two train LPG facility at the Khor Mor field where the first train is due to commence production during the third quarter of 2009 with the second train coming on stream before the end of the year. Train 1 will take production capacity at Khor Mor to 150MMscfpd, together with 500 tonnes/day of LPG and 7,000 bpd of condensate, with train 2 doubling production to 1,000 tonnes/day of LPG and 14,000 bpd of condensate and 300MMscfpd of gas, which will fully meet the requirements of the two power stations.

450km of 2D seismic has also been acquired, fully processed and interpreted over the full Khor Mor structure and the first of three wells was spudded in January 2009 in order to commence full appraisal and delineation of this highly prolific reservoir. At the Chemchemal field 800km of 2D seismic data has been acquired, fully processed and interpretation is ongoing. The results to date are very encouraging and two deep appraisal wells on this large structure are planned for the second quarter of 2009 using the 2000HP rig that has recently been mobilised to site.



• *Schematic of UAE Gas Project* •

UAE Gas Project

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

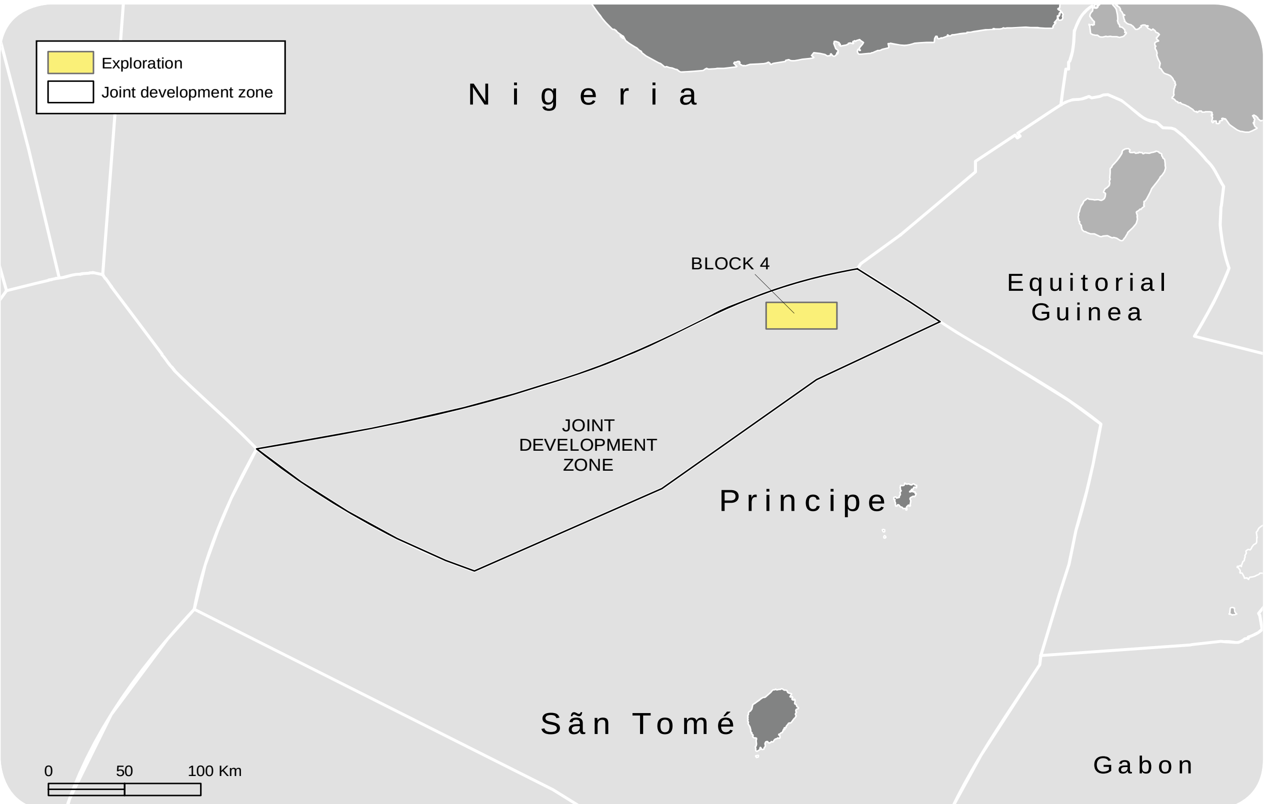
The UAE Gas Project receives gas at the UGTC receiving platform offshore and then transports the gas by an 80km, 30" onshore and offshore pipeline, to the gas processing facilities in Sharjah which are operated by Sajgas (Dana Gas 100% owned). CNGCL (DanaGas 35% owned) is the gas marketing company that has long term gas contracts to deliver 600MMscfpd of gas from the Sajgas processing plant to end users in the UAE and markets the LPG, condensate and sulphur (produced from the processing of the imported gas) within the region and to international customers.

Joint venture with Emarat

United Gas Transmissions Company (UGTC), a 100% owned subsidiary of the Company has implemented a joint venture project with Emarat (on a 50:50 basis) which owns the largest gas pipeline in the UAE. The main pipeline of the joint Hamriyah Gas Pipeline Project is a 48-inch gas pipeline that connects the Sharjah gas hub at Sajaa to the fast-growing industrial area at Hamriyah, and covers a distance of 32 km, with a capacity of one billion cubic feet per day (1BCFd).

The completion of the pipeline in mid 2008 represents a milestone in Dana Gas UAE projects and successfully showcases true public private partnership in meeting the energy needs of the UAE. The new 48-inch pipeline is now operational for use by 3 end users in the Hamriyah area, SEWA, FEWA and CNGCL under terms of a 25 year contract.

• *Sharjah Western Offshore Concession* •



• *Nigeria/ Sao Tome Block 4* •

Sharjah Western Offshore Concession

Dana Gas has a 25 year agreement with the Government of Sharjah for the exploration and development of the Western Offshore Concession in Sharjah, UAE. 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 plan for the Zora Field, for which detailed reservoir studies and planning work have been progressing during 2008, will make use of previously drilled wells where new horizontal sections within the gas reservoir will be drilled. An unmanned offshore wellhead platform will be installed and the gas will be sent onshore, with deliveries planned to commence in 2010.

Facilities suppliers and jack-up rigs suitable for this project have been identified and have been contacted to provide commercial bids. Some aspects of the field development have been delayed in order to take advantage of the significant fall in costs witnessed in the latter part of 2008; however, orders for major items with long delivery times are to be awarded in order not to delay the overall schedule. Current estimated costs for the Zora development are approximately $55 million.

In addition work is progressing on a $65 million exploration programme over the Concession which will include an option to drill a minimum of one exploration well.

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

Dana Gas holds a 10% interest in Block 4 of the Nigeria/Sao Tome Joint Development Zone. The Production Sharing Contract and Joint Operating Agreement were signed in 2006.

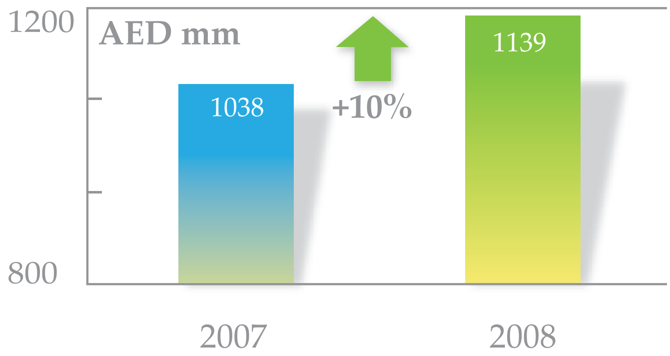
Block 4 is an extension of the prolific Nigeria deep water play where a number of significant oil discoveries have been made. Based on the interpretation of 3D seismic, several large structures capable of containing giant size oil fields have been identified and mapped.

The Block 4 consortium, for which Addax Petroleum is the operator, has contracted the fifth generation, dynamically positioned drillship Deepwater Pathfinder to drill an exploration well on the block, which is planned to spud during the second half of 2009.

Financial Review

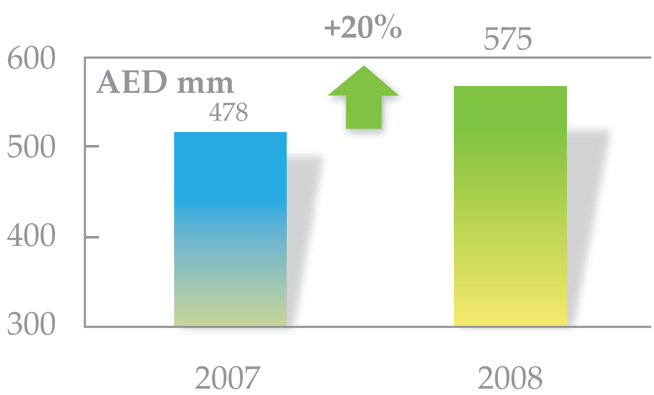
During the year Dana Gas achieved revenues of AED 1.139 billion and grew gross operated production volumes by over 50% with start-up of its major gas project in the Kurdistan Region of Iraq.

Revenues



Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDAX) reflecting cash flows from operations in 2008 increased by twenty per cent during the year to reach AED 575 million.

EBITDAX



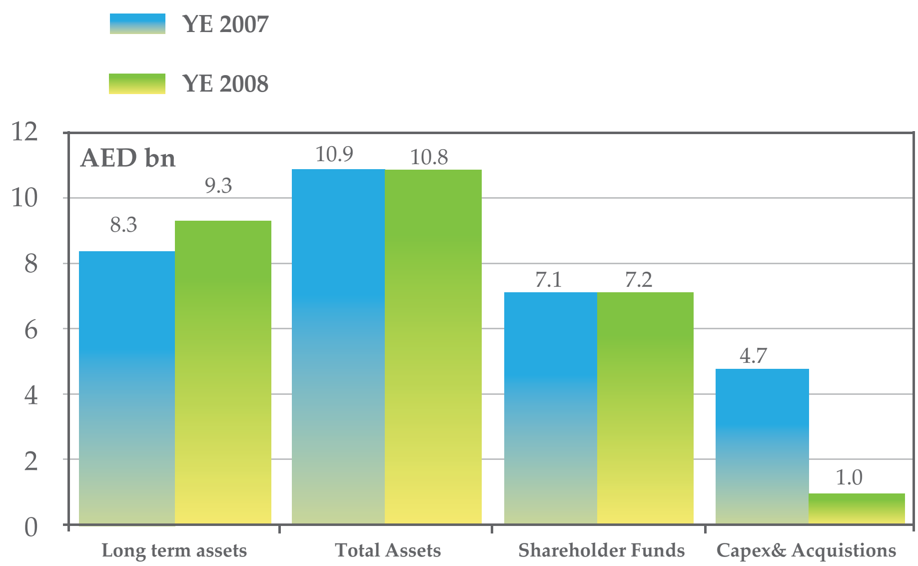
The net profit for the year was AED 120 million after adjusting for non cash depreciation and depletion of AED 301 million and finance costs of AED 263 million on the USD 1 billion Convertible Sukuk issued in 2007. The ongoing financial crisis has had minimal impact on the Group as approximately 80%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

Liquidity and Financial Resources

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

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

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



Corporate Social Responsibility

Dana Gas recognises that Corporate Social Responsibility (CSR) is about managing business interactions with people, the environment and the economy, by contributing to economic and social development in a way that safeguards natural resources and the environment whilst respecting the rights of each individual. The Company is focussed on delivering superior and sustainable long-term value to its shareholders, while making a positive contribution to the societies in which we operate.

Soon after its Formation, Dana Gas commissioned the International Finance Corporation (IFC) in Washington, a member of the World Bank Group, to assist and advise it in achieving its stated objective to adopt and implement sustainable policies for best practice in the following areas:

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

IFC submitted its extensive report to the Board of Directors who adopted the resolutions and began the implementation program in June 2007. Another of our main focus areas to date has been contributing to society welfare through CSR activities and philanthropic efforts.

Community Investments

Dana Gas is committed to providing economic and social benefits to the communities in which it operates, particularly in the UAE, Egypt and Kurdistan Region of Iraq. During 2008, our contributions covered various humanitarian causes with a main focus on education, sports, health and the environment.

Education

Within the field of education, Dana Gas has been working closely with prominent educational institutes and public schools to reach out to students and their educational needs:

- Granting the prestigious Dana Gas Excellence Awards to outstanding students in the American University of Sharjah (AUS) at the 2008 Spring Commencement Ceremony.
- Making possible a relation between Cambridge University and the American University of Sharjah for exploring cooperative research and student development opportunities. Dana Gas is funding the joint projects between the institutions.
- Supplying public schools in Sharjah with colorful student agendas to encourage student interest in schoolwork.

In Egypt, Dana Gas Egypt has signed an MOU with EduSystems International (ESI) to sponsor the first two phases of the SKOOOL portal project, which seeks to improve current educational levels in Egypt and enhance education programs.

Dana Gas has also dedicated a lot of attention to various educational needs in Kurdistan. This includes the granting ten full scholarships for masters' degrees in the American University in Suleymania, sponsorship of Iraqi universities at the Global Education Conference in London and construction of a four-classroom school in Qarachwar for the students of the local community. It has also supplied the district of Qader Karam with various school requirements and distributed stationery and bags to 600 students, giving the village children hope for a better academic year.

Health

Dana Gas has contracted with Health Care International (HCI), a well renowned Egyptian medical organization specialized in a wide array of healthcare services, to continually assess adaptability to local context, in coordination with the Ministry of Health and Population.

- The renovation, refurbishment and upgrading of three hospitals located in the vicinity of Aswan, Dakahleya and Damietta in Egypt.
- Donation of two fully equipped medical caravans to the Egyptian National Research Center (NRC) to operate in concession sites.
- The two projects of medical enhancement and medical caravans go hand-in-hand in bringing in a more focused approach and a better sustainability factor, whereby each renovated medical unit will host two caravans annually to cover mass service delivery for a specific period.

In Kurdistan, Dana Gas donated a caravan to Qardasor to be used as health center for the district of Qushtapa, constructed an x-ray room in Alton Kopre, and set up a mobile health team to serve the people in Qushtapa, Chamchamal, Shwan, Qader Karam, Shoresh and Alton Kopre. It also provided Shwan with a chlorine water system, donated a drinking-water cooler to Alton Kopre, replaced several water tanks, and drilled water wells in Chemchemal, Shoresh and Qader Karam as part of the Drought Program.

Sports

- Sponsoring various sports events held in Sharjah such as 2008 Sharjah Water Festival, created by Sharjah Commerce and Tourism Development Authority (SCTDA) as an entertaining sport festival that includes water shows, acts by performers from around the world, and the 9th Sharjah Grand Prix.

- Sponsoring the 2nd Sharjah Arabian Horse Festival, which was attended by senior government and private sector officials.

- Considerable assistance to the UAE Disabled Sports Federation, which offers adequate training and facilitates for disabled sportsmen and women.

- The construction of soccer fields in the village of Qader Karam, Chemchemal, Shoresh, and Barzan in the Kurdistan Region of Region to support the international aspirations of the Kurdistan Football team.

The environment

Dana Gas, together with Crescent Petroleum has entered into a strategic alliance with Dubai Multi Commodities Centre (DMCC) and EcoSecurities to jointly develop emission reduction projects in the oil and gas sector, under the Kyoto Protocol's Clean Development Mechanism (CDM).

- Under the terms of the agreement, the two companies are to identify projects across their regional oil and gas operations to reduce greenhouse gas emissions and improve energy efficiency. EcoSecurities and DMCC will facilitate the development of the CDM component of these projects, and create value by trading the Certified Emissions Reduction (CERs) credits thus generated.

- In addition, DMCC and EcoSecurities will collaborate with Dana Gas and Crescent Petroleum to jointly identify opportunities to work with other energy companies and governments throughout the region, to reduce their greenhouse gas emissions.

Dana Gas has entered into an agreement with the United Nation's Development Program in Egypt for the Biomass project, to explore alternative sources of energy to reduce the "Black Cloud", a huge contributor to Egyptian pollution and a resultant of the burning of massive rice hay after cultivation. Dana Gas was also a co-sponsor of the 2008 World Environment Day in Egypt.

Corporate Governance

The Board is committed to ensuring that Dana Gas delivers long term value to shareholders and recognises that good corporate governance will facilitate sustainable growth.

The following sections describe the Company's commitment and how it complied with that commitment.

The Board of Directors

The Board of Directors of Dana Gas is responsible for setting the Company's strategy and business priorities, as well as guiding and controlling managerial performance.

The main functions of Dana Gas Board of Directors are to

- decide Dana Gas' strategy and agree its business plan
- control the budget and the allocation of resources
- decide on investment and business development opportunities
- oversee the integrity of financial results and controls
- set terms of reference for and regularly review the effectiveness of key group functions
- introduce a system of responsibility and accountability with appropriate authorities
- make decisions on the appointment of key executives
- evaluate executive performance
- ensure that a succession plan is in place for key executives

The Board comprises an Executive Chairman, two executive directors and twelve non-executive directors. In accordance with ECSA guidelines one third of non-executive directors should be designated as "Independent Directors" defined as a director who either himself or his spouse or relative, during the last two years, neither was a member of the executive management of the company nor had any relationship that resulted in any significant financial transactions with the company or its parent, affiliated or related company

The Executive Chairman is Mr Hamid Jafar, who is responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role, setting its agenda, ensuring the provision of information to directors, and leading communication with the shareholders

The two executive directors are Mr Rashid Al Jarwan, General Manager and Mr Ahmed Al Arbeed, Executive Director, Upstream.

The role of the non-executive directors on the Board is to contribute to the development of strategy; scrutinise the performance of management; ensure that financial information is accurate and that financial controls and systems of risk management are robust and defensible and to be responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and removing senior management and in succession planning. The non-executive directors will meet as a group at least once per year without the Chairman or the executive directors present.

Directors were originally nominated by the founders, but following the initial three-year term, will be elected or re-elected every three years. In principle, the Board represents the shareholders' interests. To achieve this, the Dana Gas Board will, by design, include at least one member from each of the six countries of the GCC. The maximum number of Board Members, including executive directors will be eighteen.

The Board of Dana Gas will hold six meetings each year, normally in Sharjah, but by agreement could be in alternative locations or by conference call. Where a director is unable to attend a meeting he or she is advised in advance of the matters to be discussed and is given an opportunity to make his or her views known.

Board Committees & their Responsibilities

Dana Gas has four Board Committees.

Steering Committee

This Committee is chaired by the Chairman of Dana Gas, the committee members are as follows

Mr. Hamid Dhiya Jafar, Committee Chairman
Dr. Adel Khalid Al-Sabeeh
Mr. Abdulla Nasser Huwaileel Al-Mansoori
Mr. Ahmed Rashid Al-Arbeed
Mr. Rashad Mohammed Al-Zubair
Mr. Rashid Saif Al-Jarwan
H.E. Shaikh Sultan Bin Ahmed Bin Sultan Al-Qasimi

The Committee's main role is to assist the Chairman in overseeing management and to follow up on issues delegated by the Board of Directors. To achieve this effectively it receives regular management reports on key areas of the business, makes urgent decisions on behalf of the Board on very large items of operational expenditure, and makes decisions on capital expenditure not related to business development.

Audit & Compliance Committee

The Audit and Compliance Committee comprises the following directors:

Mr. Varoujan Nerguizian, Committee Chairman
Mr. Ziad Abdulla Ibrahim Galadari
Mr. Abdulaziz Hamad Al-Jomaih
Mr. Khalid Abdul Rahman Saleh Al-Rajhi
Mr. Abdulla Nasser Huwaileel Al-Mansoori

All members of the Audit Committee should be non executive Directors and at least three members, including the Chairman, should be independent and at least two members should be financial experts.

The principal role of the Audit and Compliance Committee is to assist the Board to carry out its function of financial oversight. To achieve this, it

- reviews and approves the accounts
- oversees Dana Gas' financial reporting process, including internal control structures and procedures for financial reporting

- monitors the integrity and appropriateness of the Company's financial statements
- reviews operational risk management processes
- recommends the selection and remuneration of the Company's external auditors
- recommends the structure and processes for the Company's internal audit function.

Business Development & Investment Committee

The Business Development and Investment Committee comprises the following directors:

Dr. Adel K. Al-Sabeeh, Committee Chairman
Mr. Hamid Jafar
Dr. Tawfeeq Al Moayed
Mr. Ahmed Al-Arbeed
Mr. Rashad Al-Zubair
Mr. Said Arrata
Mr. Majid Jafar
Mr. Rashid Al-Jarwan

All members of the Committee have regional understanding and experience of business development and / or acquisition opportunities.

The principal role of the Business Development and Investment Committee is to assist the Board in its role of deciding investment and business development opportunities. To achieve this, it

- oversees Dana Gas' business strategy and reviews management plans for business development
- actively works with management to create, develop and assist in crystalisation of business opportunities
- reviews and makes recommendations on significant decisions of investment-related capital expenditure
- reviews and oversees due diligence on specific business opportunities

Corporate Governance and Remuneration Committee

The Corporate Governance and Remuneration Committee comprises the following directors:

Mr Majid Hamid Jafar, Committe Chairman
Dr. Tawfeeq Abdulrahman Almoayed
Mr. Abdulaziz Hamad Al-Jomaih
Mr Sa'id Arrata
Mr Varoujan Nerguizian
Mr. Ziad Abdulla Ibrahim Galadari

The principal role of the Corporate Governance and Remuneration Committee is to ensure the effectiveness of Board processes and assist it in its roles of appointing key executives, evaluating and rewarding executive performance and succession planning. To achieve this, it

- recommends good Corporate Governance standards and guidelines and monitors Board processes and performance to ensure compliance
- monitors the standards of non-financial disclosure and good shareholder communications
- reviews and make recommendations to the Board on remuneration principles, structures and practice applicable to the Directors and the Company
- reviews and approves the Company's succession plans
- ensures that the Company maintains good investor relations

Five Board Meetings were held during 2008.

Board Remuneration

Subject to UAE Company Law, and the regulations of the Abu Dhabi Securities Exchange (ADX), non-executive Board members of Dana Gas will be remunerated by means of fixed annual fees for their Board activities. The level of these fees will be proposed annually by the Corporate Governance and Remuneration Committee, agreed by the full Board, and approved, in aggregate, by the Company General Meeting.

Executive Board members will not receive Board fees, but the responsibilities inherent in their Directorships will be taken into account when setting their executive pay levels. The Corporate Secretary will be remunerated through normal executive reward processes for his/her role as Corporate Secretary.

The board remuneration is disclosed in the Consolidated Statement of Changes in Equity.

Disclosures, Conflicts of Interest and Integrity

In order to maintain maximum transparency, and to ensure compliance with the legal framework and best practice, the following guidelines are in place. Directors of Dana Gas must

- disclose all other directorships held, and should inform, and seek permission from, the Board of any new directorships prior to accepting them
- disclose any business activities that relate directly or indirectly to the business of Dana Gas, either by the director or immediate family members, or any company in which the Director or family member holds an interest or employment position
- disclose any material interest in any transaction in which Dana Gas is a party
- not take part or seek to influence any decision where this can give rise to an actual or perceived conflict of interest, either for themselves or immediate family member
- not offer or accept any bribes, gifts or favours intended to influence decisions
- notify the Board of any activities with a competitor, supplier or other business associates of Dana Gas which may give rise to, or give the perception of conflict of interest
- maintain strict confidentiality of any information, discoveries, intellectual property or ideas of Dana Gas which have been acquired as a result of being a director
- conform to the regulations of the Abu Dhabi Securities Exchange (ADX) with regard to share dealing, either by the director or by immediate family members

Any possible issues relating to disclosures, conflicts of interest and integrity should immediately be brought to the attention of the Chairman and the Corporate Secretary. As required, these will be reviewed by the Corporate Governance and Remuneration Committee, which will recommend appropriate action to the full Board.

Directors provide on an annual basis, a disclosure document covering the issues listed and a directory of Board members' interests, as disclosed, will be maintained and continually updated by the Corporate Secretary.

The Company will make full disclosure to shareholders of all material transactions with affiliates of the controlling shareholders, directors or management, all material shareholder agreements and all trading on Dana Gas shares by directors and senior managers.

Protecting Minority Shareholder Rights

All directors of Dana Gas are shareholders in the Company, although the level of shareholding varies widely. Those with small shareholdings may be viewed as representing outside investors. Dana Gas is determined to treat all shareholders equally, and the Board will constantly review the current arrangements, in particular the Umbrella Agreement with Crescent Petroleum, to ensure that this is the case.

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 2008, and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

Signed by

Edward B. Quinlan (Registration No. 93)

For Ernst & Young

Sharjah, United Arab Emirates

25 March 2009

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2008

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

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

CONSOLIDATED BALANCE SHEET
At 31 December 2008

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

Director
25 March 2009

Director
25 March 2009

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

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2008

	Notes	2008 USD mm	2008 AED mm	2007 USD mm	2007 AED mm
OPERATING ACTIVITIES					
Profit for the year before appropriations and tax		**71**	**258**	76	281
Adjustments for:					
Other income		**(12)**	**(44)**	-	-
Investment and finance income	6	**(40)**	**(148)**	(10)	(35)
Depreciation and depletion	10	**82**	**301**	66	241
Gain from change in fair value of investment property	13	**(33)**	**(121)**	(56)	(205)
Finance costs	8	**72**	**263**	42	153
Board compensation		**(2)**	**(9)**	(2)	(9)
		138	**500**	116	426
Changes in working capital:					
Accounts receivable and prepayments		**(53)**	**(194)**	(18)	(66)
Inventories		**(18)**	**(66)**	-	1
Trade payables and accruals		**4**	**16**	41	146
Net cash generated from operating activities		**71**	**256**	139	507
Income tax paid		**(38)**	**(138)**	(46)	(170)
Net cash from operating activities		**33**	**118**	93	337
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(233)**	**(854)**	(152)	(556)
Expenditure on intangible	12	**(60)**	**(218)**	(22)	(82)
Investment in deposits with more than three months' maturity		-	-	28	103
Financial asset at fair value through profit or loss account	16	**(9)**	**(31)**	-	-
Investment and finance income	6	**11**	**41**	10	35
Proceeds from sale of assets held for sale		**46**	**170**	-	-
Acquisition of subsidiaries	11	-	-	(1,129)	(4,138)
Net cash used in investing activities		**(245)**	**(892)**	(1,265)	(4,638)
FINANCING ACTIVITIES					
Proceeds from issue of convertible bonds		-	-	966	3,541
Repurchase of convertible bonds	20	**(38)**	**(140)**	-	-
Proceeds from bridge finance		-	-	470	1,723
Repayment of long term debt		-	-	(13)	(46)
Repayment of bridge finance		-	-	(470)	(1,723)
Finance lease obligations settled		-	-	(1)	(2)
Finance costs		**(74)**	**(271)**	(42)	(153)
Net cash from financing activities		**(112)**	**(411)**	910	3,340
DECREASE IN CASH AND CASH EQUIVALENTS		**(324)**	**(1,185)**	(262)	(961)
Cash inflow on acquisition of subsidiaries	11	-	-	57	208
Cash and cash equivalents at the beginning of the year		**541**	**1,983**	746	2,736
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	**217**	**798**	541	1,983

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
At 31 December 2008

Attributable to shareholders of the Company

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

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

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

1 ACTIVITIES

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

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

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

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

Subsidiaries	**%**	**Country of incorporation**	**Principal activities**
Dana Gas LNG Ventures	100	British Virgin Island	Oil and Gas exploration & production
Centurion Energy International Inc	100	Canada	Oil and Gas exploration & production
Sajaa Gas Private Limited Company ("SajGas")	100	Emirate of Sharjah, UAE	Gas Sweetening
United Gas Transmissions Company Limited ("UGTC")	100	Emirate of Sharjah, UAE	Gas Transmission
Danagaz (Bahrain) WLL	66	Bahrain	Gas Processing
Joint Ventures	**%**	**Country of operations**	**Principal activities**
Kurdistan Region of Iraq	50	Kurdistan Region of Iraq	Oil and Gas exploration & production
UGTC / Emarat	50	Emirate of Sharjah	Gas Transmission
CNGCL	35	Emirate of Sharjah	Gas Marketing
EBGDCO	26.4	Egypt	Gas Processing

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Statement of compliance

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

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

(a) Interpretations effective in 2008

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

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

(b) Interpretations effective in 2008 but not relevant

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance (continued)

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance (continued)

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

Consolidation

(a) Subsidiaries

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

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

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

(b) Transactions and minority interests

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

(c) Joint ventures

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

(d) Associates

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

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

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

Segment reporting

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

Foreign currencies

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

Foreign group companies

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

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.

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
Pipelines & related facilities	25 years
Other assets:	
Computers	3 years
Furniture and fixtures	3 years – 5 years
Vehicles	3 years – 5 years
Leasehold improvements	over the period of lease

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

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

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

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

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

Oil and gas exploration assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and gas exploration assets (continued)

case, the costs are written off. When proven reserves of oil and natural gas are determined and development is sanctioned, capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

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

(a) Depreciation / amortisation

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

(b) Impairment – exploration and evaluation assets

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

Intangible assets

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

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

Asset decommissioning obligation

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

Impairment of non-financial assets

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

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

(a) *Financial assets at fair value through profit or loss*

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

(b) *Loans and receivables*

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

(c) *Available-for-sale financial assets*

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

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

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

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

Investment properties

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

Inventories

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

Account receivable and prepayments

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

Cash and cash equivalents

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

Trade payable and accruals

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Income Taxes

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

Borrowing costs

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

Leases

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

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

Profit-bearing loans and borrowings

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

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

Convertible bonds

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment transactions

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

Equity-settled transaction

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

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

Cash-settled transactions

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

Revenue recognition

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

Revenue from sale of hydrocarbons

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

Finance income

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

Fair values

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

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Estimation uncertainty

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

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

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

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

4 SEGMENTAL INFORMATION

Primary segment information

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

Year ended 31 December 2008

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

4 SEGMENTAL INFORMATION (continued)

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

Secondary segment information

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

Year ended 31 December 2007

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

4 SEGMENTAL INFORMATION (continued)

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

5 NET REVENUE

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

6 INVESTMENT AND FINANCE INCOME

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

7 OTHER INCOME

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

8 FINANCE COSTS

	2008 USD mm	*2007 USD mm*
Finance cost on convertible bonds (note 20)	**88**	13
Finance cost on bridge facility	**-**	23
Arrangement fee and other charges	**-**	6
Finance cost capitalised	**(16)**	-
	72	42

9 EARNINGS PER SHARE

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

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

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

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

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

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

10 PROPERTY, PLANT AND EQUIPMENT

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

Capital Work in Progress comprises:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2008

10 PROPERTY, PLANT AND EQUIPMENT (continued)

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

Capital Work in Progress comprises:

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

11 BUSINESS COMBINATIONS

Acquisition of Centurion Energy International Inc

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

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

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

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

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

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

11 BUSINESS COMBINATIONS (continued)

Acquisition of Centurion Energy International Inc (continued)

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

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

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

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

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

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

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

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

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

12 INTANGIBLE ASSETS

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

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

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

Impairment testing of goodwill

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

12 INTANGIBLE ASSETS (continued)

Impairment testing of intangibles

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

Key assumptions used in value in use calculations

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

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

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

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

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

Sensitivity to changes in assumptions

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

13 INVESTMENT PROPERTY

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

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

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

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

14 INVENTORIES

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

15 ACCOUNTS RECEIVABLE AND PREPAYMENTS

Trade accounts receivable	**94**	56
Prepaid expenses	**1**	1
Other receivables	**37**	21
	132	78

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

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

15 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ACCOUNT

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

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

The investment is in a fund investing in regional equities.

17 CASH AND CASH EQUIVALENTS

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

17 CASH AND CASH EQUIVALENTS (continued)

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

18 ASSETS HELD FOR SALE

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

19 SHARE CAPITAL

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

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

20 CONVERTIBLE BONDS

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

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.

20 CONVERTIBLE BONDS (continued)

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

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

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

21 PROVISIONS

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

22 TRADE PAYABLES AND ACCRUALS

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

23 INTEREST IN JOINT VENTURE

(a) Kurdistan Region of Iraq Project

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

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

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

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

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

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

23 INTEREST IN JOINT VENTURE (continued)

Kurdistan Region of Iraq Project (continued)

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

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

(b) UGTC / Emarat Joint Venture

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

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

23 INTEREST IN JOINT VENTURE (continued)

(c) EBDGCO:

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

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

24 CONTINGENCIES AND COMMITMENTS

Egypt

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

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

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

24 CONTINGENCIES AND COMMITMENTS (continued)

Egypt (continued)

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

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

Kurdistan Region of Iraq (KRI) Project

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

25 SHARE BASED PAYMENT RESERVE

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

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

The share-based payment plans are described below:

Key Employee Long Term Incentive Plan ("LTIP")

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

25 SHARE BASED PAYMENT RESERVE (continued)

Pioneer Grant

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

26 RELATED PARTY TRANSACTIONS

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

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

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

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

Compensation of key management personnel

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

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

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Foreign currency risk

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

Credit risk

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

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

Liquidity risk

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

Year ended 31 December 2008

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

Year ended 31 December 2007

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

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

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

28 FINANCIAL INSTRUMENTS

Fair values

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

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

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

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