DANAGAS

Annual Report and Accounts 2010

From the Region, by the Region, for the Region

دانـــة غــاز
DANAGAS

Annual Report and Accounts 2010

From the Region, by the Region, for the Region

Our Vision

To be the leading private sector natural gas company in the Middle East, North Africa and South Asia (MENASA) region generating value for our stakeholders

Our Strategy

- Focus on sustainable growth in the MENASA region across the natural gas value chain
- Leverage strategic relationships to maintain competitive advantage
- Continuously enhance our technical and commercial skills to develop and operate assets safely and efficiently

Our Values

- We set and apply the highest standards of conduct and accountability
- We respect and value everyone and embrace all kinds of diversity
- We strive to devise and implement innovative ways to improve our business and fulfill our commitments
- We aim to provide a safe, healthy and environmentally friendly workplace for our employees and business partners and to minimise the adverse effects of our operations on communities and the environment

El Wastani Plant, Egypt

Contents

Group Operational Footprint 8
Group 2010 Highlights 10
Group Structure 12
Chairman's Statement. 13
Chief Executive's Operational and Financial Review 17
Health, Safety, Security and Environment 27
Risk Management 31
Corporate Governance 35
Our People 49
Corporate Social Responsibility 53
Auditors' Report and Financial Statements 57

Glossary

AED	United Arab Emirates Dirham
bpd	barrels per day
boepd	barrels of oil equivalent per day
kboepd	thousand barrels of oil equivalent per day
MMscfpd	Millions of standard cubic feet per day
Bcf	Billions of standard cubic feet
MMboe	Millions of barrels of oil equivalent
MMb	Millions of barrels
Tcf	Trillions of cubic feet

Gas is converted to barrels of oil equivalent using a conversion factor of 6000 standard cubic feet per barrel.

Group Operational Footprint

Egypt

Dana Gas Egypt

Dana Gas Egypt holds three Exploration Concessions in Egypt. It is the 100% operator of two Exploration Concessions and produces from eleven fields in the Nile Delta and is a 50% joint operator of one Exploration Concession and produces from one field in Upper Egypt. During 2010, the Company produced 77 Bcf of gas and 2.6 MMb of liquids, an average rate of 42.3 kboepd. The focus for 2011 will be to develop a new gas processing plant to the East of the Nile which, in mid-2012, will increase total gas processing capacity in the Nile Delta to 400 MMscfpd.

Gas Liquids Extraction Plant

On the Gulf of Suez, Dana Gas holds a 26.4% interest in the development of a LPG recovery plant which is due to come on stream in mid-2011.

Iraq

Kurdistan Region

In the Kurdistan Region of Iraq, Dana Gas holds a 40% interest in Pearl Petroleum Company Ltd. (PPCL) jointly with Crescent Petroleum (40%), OMV (10%) and MOL (10%). PPCL operates the Khor Mor Field which during 2010 produced gas at a gross rate of 150 MMscfpd and condensate at a gross rate of 7400 bpd, the gas being supplied to two power stations in the region. Construction of a 300 MMscfpd gas processing plant has been completed, with LPG production commencing in January 2011.

Appraisal work on Khor Mor and Chemchemal Fields is required to delineate the fields and progress full development plans.

Longer term plans are to increase production capacity to meet local gas requirements and for export regionally and to Europe.

UAE

Gas Project

The UAE Gas Project to process and transport 600 MMscfpd of imported gas from Iran awaits commencement of gas deliveries. Dana Gas owns a 35% interest in Crescent Natural Gas Corporation Limited (CNGCL), the marketing organisation, and owns 100% of UGTC and Sajgas which respectively transport and process the gas.

UGTC owns 50% of a joint venture with Emarat which has developed a 48-inch diameter gas pipeline in the UAE, with a capacity of 1000 MMscfpd to transport gas in Sharjah.

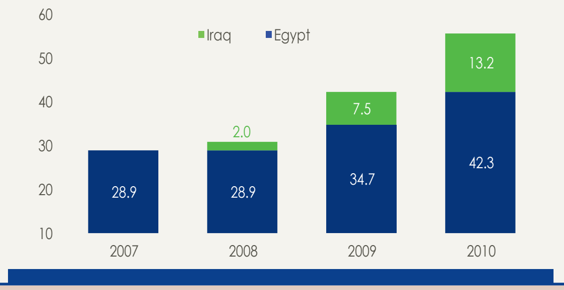
Sharjah Offshore Concession

In the UAE, Dana Gas is the 100% operator of the Sharjah Offshore Concession. During 2011, the development of the Zora Field, which straddles Sharjah and Ajman waters, will commence with production scheduled to commence in mid/late 2012 at a rate of 50 to 60 MMscfpd.

Group 2010 Highlights

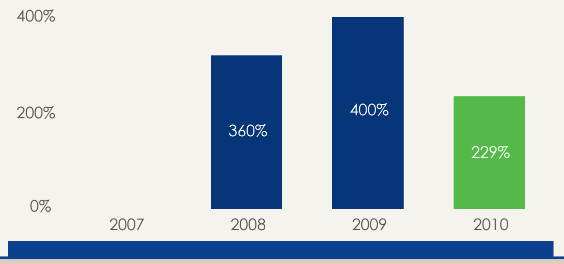
Operational

Production Growth (kboepd)



31%

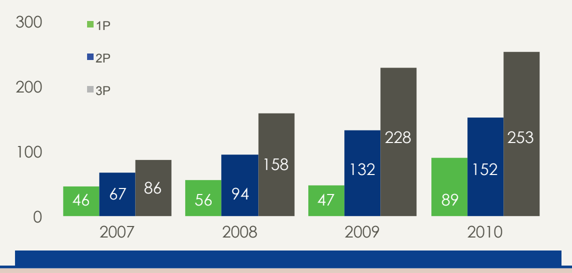
Production Replacement Ratio



229%

(2P Reserves Basis)

Proved Plus Probable Reserves (MMboe)



15%

Egypt

Five new fields were brought on stream in Egypt's Nile Delta contributing to the 20% increase in production in Egypt and a 90% increase in proved reserves and 15% in proved plus probable reserves

Safety

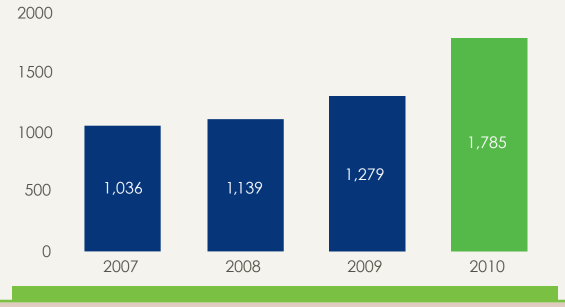
6.8 million man hours worked with zero fatalities. There is a focus on health, safety, security and the environment across the group

Exploration

Three years of continued exploration success with sixteen discoveries, and risked resources in the Egypt Nile Delta of 1.8 trillion cubic feet of gas

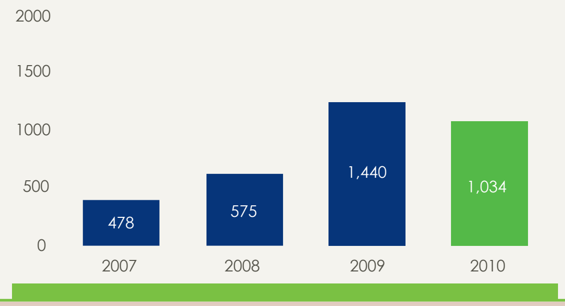
Financial

Revenue (in AED Million)



40%

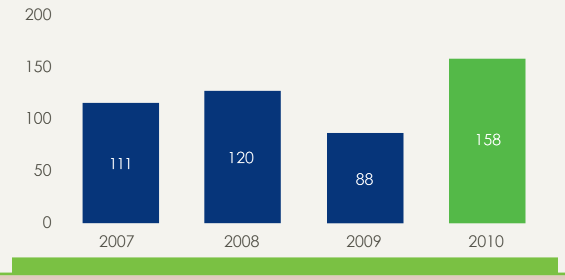
EBITDAX (in AED Million)



28%

EBITDAX trend rising strongly, 2009 being above trend as a result of assets sales

Profit after Tax (in AED Million)



80%

Cash generated from operating activities

+25%

Consistency

Dana Gas generated four quarters of consistent profits in 2010, with minimal exploration write downs and asset value reduction, reflecting the strong balance sheet

Capex

Capital expenditure AED 740 millon, down from AED 924 million in 2009 as facilities in the Kurdistan Region of Iraq were brought into production

Group Structure

Diagram shows a simplified Group Structure

Chairman's Statement

Chairman's Statement

I am pleased to report that Dana Gas achieved commendable performance during 2010, despite challenging global economic conditions

I am pleased to report that Dana Gas achieved commendable performance during 2010, despite challenging global economic conditions. The Company reported a 40% increase in sales revenue to AED 1.79 billion, a 79% increase in gross profit to AED 781 million, and an 80% increase in earnings to AED 158 million.

Such strong growth reflects the economic fundamentals driving regional gas demand, particularly progressive substitution away from liquid petroleum products, as well as increasing demand for industry and electricity generation. More recently and unexpectedly, the unfortunate recent nuclear disaster in Japan has highlighted the importance and value of gas not only as "the fuel of the 21st Century", but as a safe and reliable one, and environmentally the cleanest of the fossil fuels. Bearing in mind all the above factors, I am confident that the long term supply-demand fundamentals will remain positive for our sector in a world of robust energy prices and growing demand for both oil and particularly gas, both regionally and internationally.

These realities underpin the original vision of our founders to create a MENASA Region gas champion in Dana Gas, and we remain true to that vision. The Company continues to develop and maintain strong relationships with our stakeholders including governments, partners, and local communities, as we take pride in our regional identity, strong partnerships and entrepreneurial solutions-based approach.

We live in rapidly changing times. The unprecedented changes to the political landscape emerging in late 2010 are rippling through the MENA region causing private-sector and public-sector organisations to face operational and logistical challenges whilst the fall in share prices across regional bourses reflect the business uncertainties that investors and stakeholders are experiencing in these uncertain times.

In this economic and political climate, we are closely assessing the market fundamentals, our corporate strategy and the anticipated profitability of our assets. The Management of Dana Gas is continually assessing and evolving strategies to enhance shareholder value through pursuit of new opportunities for revenue generation while further developing our existing assets

"These realities underpin the original vision of our founders to create a MENASA Region gas champion in Dana Gas

Hamid Jafar
Chairman of the Board

and rationalising the Company's cost base. The management team is also putting in place a financial strategy to protect and enhance the interests of our shareholders by ensuring that the true value of Dana Gas is reflected in the Company's share price.

Very importantly, we would point out that Dana Gas has a comprehensive risk management framework. Your Board of Directors maintains regular oversight of its functions and working through the Management ensures that appropriate mitigation strategies are in place to ameliorate the evolving risks to protect the interests of all our stakeholders.

Operations

I am pleased to report that our operations in Egypt have remained largely unaffected by the recent events in the country, aided by the fact that the majority of our workforce comprises local staff and our excellent relations with the local communities where we operate. Of course we remain vigilant, and the situation remains under close review. Over the last year, our Egypt operation has delivered stellar results; we have increased our proved reserves by 90% to 89 MMboe and proved plus probable reserves have increased by 15% to 152 MMboe. Production in Egypt is also up 20%, and we plan to increase this further, by more than 20% during 2011, followed by a similar increase in 2012 when our third gas processing plant comes on stream.

In the Kurdistan Region of Iraq we continue to deliver significant amounts of gas to two regional power stations, and with the recent completion of our LPG processing plants, we are now in full operation extracting valuable condensate and LPG from the produced gas. We continue to press for payment for the condensate that has been delivered to the Kurdistan Regional Government (KRG), and are actively engaged with the KRG to expedite these overdue payments with urgency.

The UAE Gas Project to process and transport Iranian gas continues to await the commencement of gas deliveries by the National Iranian Oil Company (NIOC) to our associate Crescent Petroleum. During the year, Dana Gas completed the commissioning of its Sajaa Gas processing facilities after receiving commissioning gas

Al Baraka Field, Komombo, Egypt

Chief Executive's Review

in July from NIOC. However, since that time, there have been leaks discovered in the suppliers' gas transmission pipeline and these technical matters are currently being addressed by NIOC. Meanwhile, in order to protect its contractual rights, our associate Crescent Petroleum has initiated international arbitration to seek a legal ruling on the binding 25 year gas supply contract with NIOC and expects an enforceable decision by the International Tribunal in less than a year.

Management

I would first like to thank our Honorary Chairman, His Highness Sheikh Ahmed bin Sultan Al-Qasimi, for his encouragement and wise guidance during the past year. Our Board of Directors has worked tirelessly in 2010 on your behalf and we all look forward to continuing our task into 2011 and beyond. I would like to express my gratitude to all of my colleagues on the Board for their untiring efforts in guiding management through another successful year. Moreover, I wish to record my appreciation for the excellent strategic advice and global insight provided by our esteemed International Advisory Board.

Our capable management team, led by CEO Mr. Ahmed Al Arbeed, and supported by Executive Director Mr. Rashed Al-Jarwan, continues to deliver full value for our assets. On behalf of the Board of Directors, I wish to register our thanks to the Management and all our employees for their dedication and hard work over the past year, which was pivotal in achieving the results realised.

Last but not least to our Shareholders, I would like to express my own as well as the Board's appreciation for the faith and trust which you have placed in us. We remain committed to the continuing success of Dana Gas and are focused on delivering another profitable year marked by an increase in revenue, production and reserves whilst maintaining our commitment to safety and the environment, and to responsibly serving the needs of the people of this Region to which we belong.

Chief Executive's Review

"Dana Gas continued to deliver strong operational and financial performance during 2010. In this respect, I am particularly pleased that we delivered four quarters of consistent profits with no material exceptional items which reflects the strength of our balance sheet and the robustness of our earnings

Dana Gas' operational progress during 2010 has continued its enviable operational track record, which both reflects the high quality of our hydrocarbon assets and is also a testament to the skills and commitment of our professional staff who continue to deliver high performance and solid results across our business units.

Ahmed Al Arbeed
Chief Executive Officer

Dana Gas' operational progress during 2010 has continued its enviable operational track record, which both reflects the high quality of our hydrocarbon assets and is also a testament to the skills and commitment of our professional staff who continue to deliver high performance and solid results across our business units.

During 2010 we increased production across the Group by 31% to 55,500 boepd and increased our profits by 80% to AED 158 million.

In Egypt, we have increased our proved reserves by 90% to 89 MMboe and proved plus probable reserves by 15% to 152 MMboe. Production in Egypt was raised by 20% to 42,300 boepd, in line with our target projections. We now plan to increase production by more than 20% during 2011, followed by a similar increase in 2012 when our third gas processing plant comes on stream.

In the Kurdistan Region of Iraq we have achieved an impressive 76% increase in production, driven by consistent production of gas throughout the year, with continuous deliveries to two power stations. With the recent completion of our LPG processing plants, we are now in full operational mode extracting valuable condensate and LPG from the produced gas, and our near term focus in Iraq is on achieving high utilisation at the gas processing plants. We continue to press for payment for the condensate that has been delivered to the Kurdistan Regional Government (KRG), and are actively engaged with the KRG to expedite these overdue payments with urgency.

In Sharjah, we are moving ahead with the development of the Zora Field. A consolidated engineering contract, covering concept, basic and detail engineering for the offshore platform, pipeline to shore and the onshore gas processing facilities was awarded.

Dana Gas continued to deliver strong operational and financial performance during 2010, in spite of challenges which have caused some delays to our gas project in Iraq and also the UAE Gas Project to import gas from National Iranian Oil Company (NIOC). In this respect, I am particularly pleased that we delivered four quarters of consistent profits with no material exceptional items which reflects the strength of our balance sheet and the robustness of our earnings. During 2010, revenues from the sale of hydrocarbons increased to AED 1.79 billion, with gross profit reaching AED 781 million, representing year-on-year increases of 40% and 79%, respectively. These results reflect the Company's continuing growth in Egypt and the Kurdistan Region of Iraq.

Business Development and Outlook

While our portfolio is robust to support our future growth ambitions, we continue to explore promising hydrocarbon opportunities and new country entries to expand and diversify our portfolio within the MENASA Region.

During 2010, we reviewed a number of business opportunities across the Region. While our prime focus remains on growing our cash flows and maximising shareholder value, we plan to steadily build our asset base, albeit prudently managing our precious financial resources in light of regional and global conditions.

Management and Staff

I would like to thank all our staff, a team of energetic, committed and creative professionals, who have worked tirelessly to deliver these results. As Dana Gas' most valuable asset, we will continue to build our team and retain high calibre individuals to deliver on our goals and aspirations.

Operational Review

Egypt

Our team in Egypt has delivered yet another year of outstanding performance. Production during the year increased by 20% for the second year in a row, averaging 42,300 boepd, and with five new fields being brought on stream. The eleven exploration wells that we drilled during 2010 yielded 7 new discoveries, continuing the successful trend of 2009, a tribute to our team's deep knowledge of our asset base and the expertise of our exploration staff. As a result, our proved "working interest" reserves (1P) increased by 90% from 46 MMboe at the end of 2009 to 89 MMboe at the end of 2010, and our proved plus probable (2P) reserves increased by 15% from 132 MMboe to 152 MMboe, notwithstanding production of 15.4 MMboe during the year. This represents a 229% Production Replacement Ratio for our 2P reserves – an extremely impressive result by industry standards.

SajGas Plant, UAE

Exploration

During the year our exploration programme focused on the two Nile Delta Concessions, West Manzala and West Qantara. As a result of our successful exploration track record, we have been awarded another four Development Leases - two of which are contiguous and sizeable - bringing the total area covered by Development Leases to over 25% of the original Concessions acreage. This is particularly valuable as the exploration rights of a Development Lease are retained for the whole of its term (20 years, with a possible 5 year extension).

During 2010 we entered into the last extension to our exploration rights in the Concessions and relinquished 25% of the acreage as required under our Production Sharing Agreement with the Egyptian authorities. This extension is for two years and during this period our exploration program will focus on drilling prospects within these areas. After final relinquishment of the exploration acreage in June 2012, our exploration efforts will refocus on the substantial remaining prospect portfolio now contained in the Development Leases.

During 2010, our exploration success was mainly in the shallow Kafr El Sheikh reservoir and the Messinian Abu Madi and Qawasim formations. Of particular interest was the South Abu El Naga discovery whose high liquid yield resulted in higher revenues based on international market prices for natural gas liquids. This discovery, combined with the encouraging Salma Delta North discovery, reinforces our belief in the attractiveness of this acreage, since with its gas water contact being 40 metres deeper than the adjoining Salma Delta field, it indicates a new pool of hydrocarbons.

Our Nile Delta Concessions' exploration portfolio has been reviewed by Gaffney Cline & Associates, independent engineering consultants, who have reported a most likely risked resource of 1.8 trillion cubic feet of gas. Our exploration programme in 2011 will continue to target multiple horizons across our acreage and will include wells to test larger prospects in the deeper Sidi Salim formation.

Production and Development – Nile Delta

During 2010 Dana Gas produced 77 Bcf of gas plus 2.5 MMb of petroleum liquids, a total of 15.3 MMboe, from eleven fields in our Nile Delta Concessions. The 20% increase in production was achieved as a result of five discoveries - Sama, Orchid, Sharabas, Faraskur and South Faraskur - being brought on stream during the year.

Our gas processing plant at El Wastani in the Nile Delta operated throughout the year handling production from the El Wastani/ El Wastani East, Luzi, Dabayaa, El Basant, Azhar, Orchid, Sharabas, Faraskur and South Faraskur fields. The latter three fields are all located to the east of the Nile and in order to bring them on stream a process facility was built, with gas and separated condensate being piped under the Nile River. By the end of the year the El Wastani plant was handling 200 MMscfpd of raw gas whilst maintaining its excellent record of reliability and availability. Our second gas processing plant at South El Manzala, which can treat dry gas up to a capacity of 60 MMscfpd, handled production from the Sondos and Sama fields.

During the year, five successful appraisal and development wells were drilled on the Nile Delta fields alongside a continual program of working over production wells to increase or maintain production rates.

In 2011 we will increase the total throughput of our El Wastani plant to 240 MMscfpd, with enhancement of LPG recovery to follow in 2012. We shall work on tying back our recent discoveries to this plant, while development drilling will continue to optimise production across the developed fields. In addition to this and as a direct result of our continued exploration success in this area, we will scale up production capacity to the east of the Nile over and above our plans made in early 2010. A new plant, capable of handling 120 MMscfpd of gas with full condensate and LPG recovery, will be built in the easternmost portion of our acreage to handle production from the Salma Delta, Salma Delta North, Tulip and South Abu El Naga fields. This new plant will come on stream in 2012, and combined with the El Wastani and South El Manzala plants, will take our total gas handling capacity to over 400 MMscfpd.

Production and Development – Upper Egypt

During 2010, along with our 50% partner Sea Dragon Energy Ltd, we achieved an average gross production rate of 628 bopd from the Al Baraka field in the Komombo Concession. In May 2010, a development drilling campaign commenced with 8 development wells being drilled and 6 placed on production. In late 2010, two wells were hydraulically fractured to increase their productivity and in January 2011 these were together producing at circa 300 bopd. The development program for 2011 is aimed at increasing recovery of oil from the five discovered reservoirs through the drilling of five development wells. During 2010, 477 km of 2D seismic data was acquired resulting in the generation of a new prospect inventory. A commitment exploration well was drilled at the Memphis prospect and was subsequently abandoned as it did not encounter commercial hydrocarbons but was nonetheless very useful as it gave important information on the petroleum system of the area.

Gas Liquids Extraction Plant, Gulf of Suez

In Egypt, we are continuing to build an LPG extraction plant at Ras Shukheir on the Gulf of Suez through Danagaz' shareholding in Egyptian Bahrain Gas Development Company ("EBGDCo"). This plant is expected to come on stream in mid 2011, after a gross project investment of approximately AED 350 million, and will extract 130,000 tonnes per annum of LPG from a gas stream of 150 MMscfpd. Dana Gas has a net 26.4% stake in this joint venture.

Kurdistan Region of Iraq

In the Kurdistan Region of Iraq, Dana Gas' interests are held via a 40% shareholding in Pearl Petroleum Company Ltd ("PPCL"), our partners being Crescent Petroleum 40%, OMV of Austria 10% and MOL of Hungary 10%. Together with our partners, we produce gas from the Khor Mor Field and deliver it to power stations at Erbil and Chemchemal, and as we near completion of our gas processing plant this project is evolving from a construction/commissioning phase to a fully operational phase.

During 2010 gas and condensate was produced throughout the year, with raw gas production, net to Dana Gas' 40% interest, amounting to 22 Bcf plus 1.1 MMbbls of condensate, giving a total net production to

Dana Gas of 13,200 boepd. This was an increase of 76% on the production achieved during 2009 when all production was through our Early Production Facility ("EPF"). In 2010 we commenced production through the first LPG train of our gas processing plant at Khor Mor, and production was progressively increased to meet demand from the power stations. Both the EPF and LPG Train-1 of the gas processing plant were completed at the end of the year, and we commenced LPG production and lifting in January 2011.

Marking an important milestone in this project, we have now achieved full plant capacity and are delivering 250 MMscfpd. The commencement of LPG sales will significantly boost our revenues.

The above represents successful delivery of Phase 1 of this project and, whilst our current focus will remain on continuing production, our long term objective remains to fully exploit the enormous potential of the Khor Mor and Chemchemal fields to supply gas to both domestic and export markets. Our experience of production from the Khor Mor field and the well test data that we have obtained demonstrates that this is a highly prolific, world class gas condensate field. With the recent major gas discoveries in the region, we are confident that the Kurdistan Region of Iraq will become a major gas producing province capable of exporting gas within the region and into Europe. With our partners Crescent Petroleum, OMV of Austria and MOL Hungarian Oil and Gas Company, we are well positioned to maximise these opportunities.

We are conscious that during 2010 we did not fully receive payment from the KRG for the produced petroleum liquids delivered to the KRG. In the latter part of 2010 and early 2011 we have delivered condensate and LPG to private buyers, under the direction of the Kurdistan Regional Government, which has ensured that we receive revenue for part of our production. While we press the KRG for payment, we are consciously calibrating further investment, and after ensuring timely and regular payment arrangements we plan to resume full scale investment for full development of the Khor Mor and Chemchemal fields.

UAE

UAE Gas Project

Our UAE Gas Project to process and transport imported gas continues to await the commencement of regular gas supplies from NIOC. In 2001, a long term internationally binding gas supply agreement was signed between our partner Crescent Petroleum and the NIOC to import gas into the UAE. While the construction and interconnection of our facilities have long been successfully completed, regular gas supplies have yet to commence.

In July 2009, Dana Gas was notified by Crescent Petroleum that they are seeking a legal ruling on the gas supply contract with NIOC through international arbitration, as per the 25-year agreement between them, a process that is still ongoing. This follows several years of delays in gas delivery by NIOC, and demands for performance from customers in the UAE. Dana Gas has no direct contractual relationship with NIOC, its role being the transporter and processor of gas within the UAE, and holding a 35% stake in the marketing and sales operations of the processed gas and petroleum liquids. In July 2010 NIOC introduced gas into its completed transmission network and Dana Gas' UGTC pipeline and SajGas processing facilities in Sharjah for commissioning purposes. However, subsequently as it pressured up, NIOC discovered significant leaks in its offshore gas transmission system which it is now rectifying. This repair will likely take several more months to complete, and regrettably NIOC is not expected to be in a position to deliver gas until the end of this year.

Joint Venture with Emarat

Our wholly-owned subsidiary UGTC, has implemented a 50:50 joint venture project with the UAE Government entity Emarat. This joint Hamriyah Gas Pipeline Project, the largest gas transmission pipeline (48-inch diameter) in the UAE, 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. The 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.

Kor Mor Plant, Kurdistan Region of Iraq

UAE – Sharjah Offshore (Zora Field)

In our Sharjah Western Offshore Concession, we are completing the requisite contractual arrangements including gas sales. Whilst the project has taken longer than expected to complete the necessary contractual arrangements, we are now close to project construction kick-off with a view to commence production in the second half of 2012 at an anticipated production rate of 60 MMscfpd. The field development plan requires the drilling of two wells and an offshore wellhead facility connected to a gas pipeline to transport the gas onshore for processing and marketing within the UAE. The total development cost of this field is estimated to be AED 450 - 550 million.

Reserves

Gaffney Cline & Associates have carried out an independent evaluation of Dana Gas Egypt's hydrocarbon reserves which has resulted in a 15% rise in proved plus probable reserves to 152 MMboe. The 2010 year end "working interest" reserves for the Company in MMboe were as follows.

	Proved	Proved + Probable	Proved + Probable + Possible
El Manzala	**17.8**	**24.4**	**33.9**
West El Manzala	**47.6**	**85.8**	**151.2**
West El Qantara	**22.9**	**38.9**	**62.7**
Komombo	**0.5**	**2.6**	**5.0**
TOTAL	**88.7**	**151.8**	**252.9**

El Wastani Plant, Egypt

Financial Review

Further Growth and Continued Financial Stability

The Group reported strong financial results in 2010 with net profit after tax increasing by 80% to AED 158 million and a robust balance sheet by year end. In 2011, we will continue to fund our investment requirements with our internal cash flows and external financing.

Key Financial Metrics

	2010 AED Million	2009 AED Million	% Change	Indicator
Sales Revenue	1,785	1,279	40	▲
Gross Profit	781	436	79	▲
Profit After Tax	158	88	80	▲
Total Comprehensive Income	276	458	(40)	▼
EBITDAX	1,034	1,440	(28)	▼
Cash From Operations	480	385	25	▲
Capital Expenditure	740	924	(20)	▼

Overall Summary

2010 was an excellent year for the Group, as we reported a 40% increase in revenue backed by production growth and higher hydrocarbon prices. Our Gross Profit increased by 79% which demonstrates our ability to control operating costs with rising production. Net profit after tax for the year increased by 80% to AED 158 million from AED 88 million in 2009, which reflects the impact of growing production and higher oil prices coupled with lower operating costs per barrel of oil equivalent. Our production in Egypt increased by over 20% compared to 2009, and in the Kurdistan Region of Iraq we ramped up our production by 76%.

During the year an amount of AED 480 million was generated from operating activities of the Group, an increase of 25% on 2009. The generated cash was mainly utilised for our capital expenditures.

Increasing Production and Higher Commodity Prices

The Group increased its average production by 31% to 55,500 boepd, as compared to 42,200 boepd in 2009. Of this increase, 57% was contributed by our Egypt operations, where production increased from 34,700 boepd to 42,300 boepd in 2010 as we brought five newly discovered fields to production. Kurdistan operations contributed 43% to the production increase, where our average production in 2010 stood at 13,200 boepd (net to Dana Gas), as compared to 7,500 boepd in 2009.

In 2010 average realised prices for liquids witnessed an increase of 32.5%. This contributed AED 167 million of the increase in our gross revenues.

Gross Profit

The Group reported a record gross profit of AED 781 million, an increase of 79% over the previous year. This increase reflects the Group's ongoing and growing operations in Egypt and the Kurdistan Region of Iraq and the impact of our continuous cost review and optimisation strategy.

Exploration Write-Offs

In 2010, in line with our exploration strategy in Egypt, we drilled a total of eleven exploration wells of which seven were successful. This resulted in an increase of 15% on Proved and Probable (2P) "working interest" reserves. The remaining four wells being dry were written-off. In comparison to last year our exploration expenditure of AED 436 million was reduced by 89%.

Comprehensive Income

The total comprehensive income for the year stood at AED 276 million compared to AED 458 million in 2009. The comprehensive income for 2010 includes the profit for the year and an unrealised gain of AED 118 million booked on the Group's investment in MOL shares. In 2009 the unrealised gain on MOL was much higher at AED 370 million resulting in higher comprehensive income. This unrealised gain is directly booked to equity in line with the Company's published accounting policy.

Cash from Operations

In 2010 our cash flow from operations increased by 25% to AED 480 million from AED 385 million in 2009. This principally reflects higher cash flow from our Egypt operations and improved overall working capital management partially offset by higher tax. We commenced the year with a cash balance of AED 781 million and ended the year with a balance of AED 583 million, a decrease of AED 198 million. Our cash management strategy has been to manage our capital expenditures with our internal cash generation, the cash-in-hand principally being used for finance cost payments. We start 2011 with renewed plans to manage our liquidity with a combination of further improvement in internal cash generation and seeking non-recourse funding for capital projects.

Capital Investment

Capital investment in 2010 was AED 740 million, which translates into cumulative capital investments of approximately AED 2 billion over the last two years. In Egypt, the Group spent approximately AED 444 million whilst in the Kurdistan Region of Iraq the investment spend was AED 216 million.

Balance Sheet

Total assets at the year end stood at AED 11.8 billion, an increase of 4% from last year's total assets of AED 11.4 billion. This increase was largely due to the increase in the value of our significant capital expenditures in Egypt and Kurdistan Region of Iraq, as well as our investment in MOL shares. Total net assets at year end amounted to AED 7.9 billion, with the book value per share being AED 1.20 (2009: AED1.16 per share).

Capital Markets Relationship

Dana Gas recognises the importance of investor relations and capital market communications, and addresses these globally from the headquarters in Sharjah and from our London office. During the year, members of the senior management team, including the CEO, regularly met with investors, bond holders, analysts and investment banks to discuss the strategy, plans and performance of the Group. Further in 2010, the Company initiated the process of organising investor calls after release of each of our quarterly and annual earnings, and will continue to do so in 2011. This initiative has been much appreciated by the investor community, and is a part of our commitment towards information dissemination and transparency.

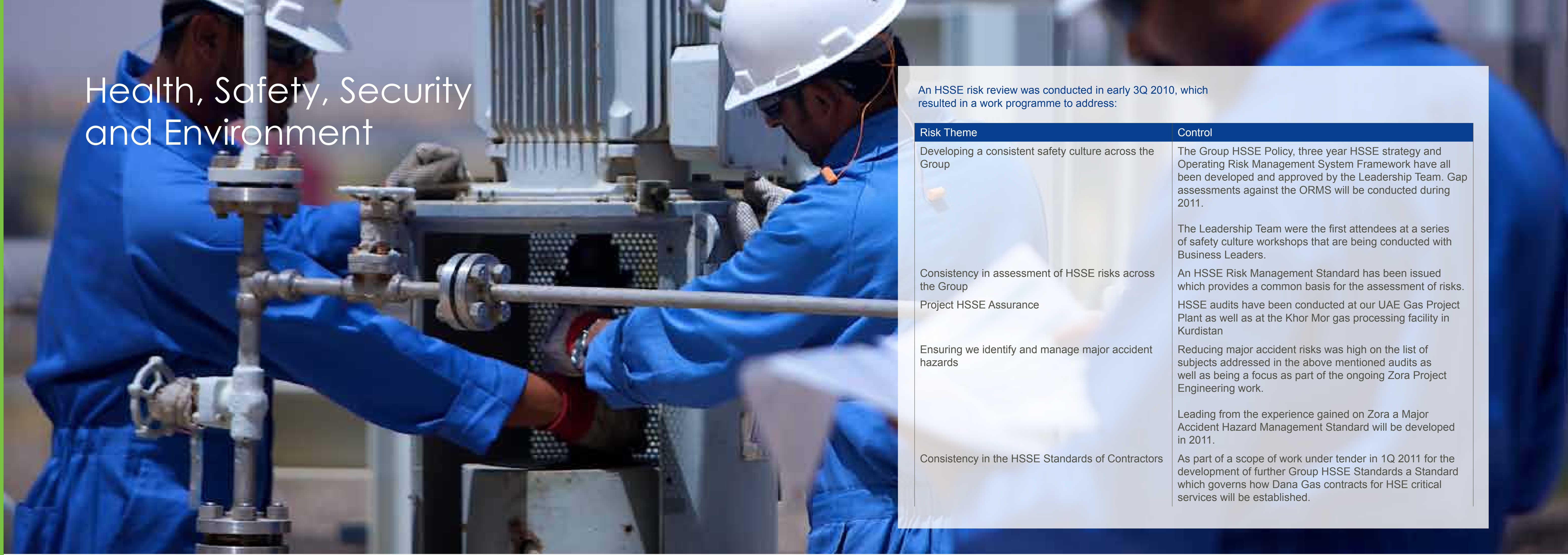
Financial Strategy & Outlook

Longer term, we will continue to focus on value creation for our esteemed Shareholders through focussed investment in our core assets and growth from new business development opportunities that meet our investment criteria.

For 2011, we will continue to fund our investment requirements with internal cash flows and appropriate external financing. In particular, we will focus on maintaining a robust balance sheet and strong liquidity for the Group. Our US$ 1 billion Sukuk is maturing in October 2012, and as a proactive measure, we plan to implement a Sukuk Liability Management program with regard to the bond. On our further capital funding arrangements, we are working with international financial institutions to structure appropriate non-recourse financing for the development of our discoveries and projects such as the Zora Field development project.

.

Health, Safety, Security and Environment



Health, Safety, Security and Environment

An HSSE risk review was conducted in early 3Q 2010, which resulted in a work programme to address:

Risk Theme	Control
Developing a consistent safety culture across the Group	The Group HSSE Policy, three year HSSE strategy and Operating Risk Management System Framework have all been developed and approved by the Leadership Team. Gap assessments against the ORMS will be conducted during 2011. The Leadership Team were the first attendees at a series of safety culture workshops that are being conducted with Business Leaders.
Consistency in assessment of HSSE risks across the Group	An HSSE Risk Management Standard has been issued which provides a common basis for the assessment of risks.
Project HSSE Assurance	HSSE audits have been conducted at our UAE Gas Project Plant as well as at the Khor Mor gas processing facility in Kurdistan
Ensuring we identify and manage major accident hazards	Reducing major accident risks was high on the list of subjects addressed in the above mentioned audits as well as being a focus as part of the ongoing Zora Project Engineering work. Leading from the experience gained on Zora a Major Accident Hazard Management Standard will be developed in 2011.
Consistency in the HSSE Standards of Contractors	As part of a scope of work under tender in 1Q 2011 for the development of further Group HSSE Standards a Standard which governs how Dana Gas contracts for HSE critical services will be established.

Business success goes hand in hand with excellence in HSSE, a fact recognised by Dana Gas and summed up in a statement made by our Chief Executive Officer, Mr. Ahmed Al Arbeed ***'Health, Safety, Security and Environment is our business'***. Actions speak louder than words and Dana Gas has been busy in 2010 developing the Group HSSE organisation, HSSE risk register, as well the HSSE Policy and Management System for the company. The effort is being lead by the CEO, supported by the Senior Leadership of the Company and the Group HSSE Manager, brought on mid-year 2010.

The Group HSSE Policy was approved by the Board of Directors in November. Our HSSE Policy is a statement of commitment, most importantly to our employees, who work hard every day to make Dana Gas a great company, in addition to our shareholders, communities and governments with whom we work and our partners as well as the contractors and suppliers who work with us.

The HSSE Policy forms the top level of our Group HSSE Management System, which is called the Operating Risk Management System or ORMS, acknowledging that our understanding and management of risk is key to improving our HSSE performance. The ORMS will set out a series of HSSE Requirements that Business Units shall be audited against annually.

Performance

Monthly Group HSSE reporting by Business Units was initiated in August of 2010. Data quality is continuously improving, notably through the implementation of Group Standards on HSSE Definitions and HSSE Reporting and, in 2011, through the implementation of a Group-wide HSSE reporting tool.

Safety Metric	2010	Benchmark	Comment
Fatalities	0		Compared to 3 in 2009
Man hours worked	6.8mm		Contractors and employees
Recordable injury cases	24		OSHA definition*
Recordable injury frequency	0.71	0.35	OGP 2009
Major road accidents	2		Dana Gas definition
Kilometers driven	11mm		OSHA definition*

Data includes Kurdistan safety incidents, man hours and kilometers
** US Occupational Safety and Health Administration*

In 2010, we achieved a full year with ZERO fatalities occurring as a result of our activities. However, 24 of our workforce (12 employees, and 12 contractors) received injuries of a severity of medical treatment or greater during the year as a result of working with Dana Gas in the UAE and Egypt as well as the Pearl activity set in Kurdistan.

The Total Recordable Injury Frequency (TRIF) was 0.71 at the end of December, a number we intend to drive down in 2011.

Process Safety

No significant gas releases were reported from our facilities in 2010. The integrity of our assets is measured by our ability to avoid releases of gases and liquids from our process facilities. We have initiated the reporting of a metric called Loss of Primary Containment, which will focus attention on process releases.

Environment

There was only one reported significant release of hydrocarbon to the environment, which occurred in our Southern Egypt Concession where 302 barrels of produced water were released to the desert. Produced water treatment facilities have been installed to eliminate a repeat of this incident. We are committed to the continual reduction of our environmental impact. Spills to environment and loss of containment incidents will be reported in our next annual report.

Health

Our policy states that we are committed to an 'improvement in health, safety and environmental performance with the goal of zero accidents and harm to people and minimising our environmental impact.' 'Harm to people' means looking after their safety as well as their health. The reporting of illnesses as well as injuries has been introduced in our 2011 corporate reporting requirements. We will learn from this knowledge and put controls in place to drive down the risk of 'harm to people'.

Security

Security management is integral to our HSSE efforts and reporting of security incidents has also been introduced into our Group reporting requirements in 2011.

HSSE Risks identified in 2010

In 2011, we will increase our focus on HSSE risk understanding, driving down our risk profile.

Kor Mor Plant, Kurdistan Region of Iraq

Risk Management

Managing Risk Responsibly

Overview

Dana Gas' ability to protect and grow shareholder value depends on the successful delivery of the Group's business objectives. In turn, this depends on the extent to which the Group is effective in identifying, assessing and managing risks across the business.

Dana Gas strongly believes that effective business risk management is essential to the efficient operation of its assets, projects, central functions and the Group. Dana Gas therefore aims to fully adopt best practice in risk management to protect the Group from business and HSSE risk, maximise opportunity and safeguard shareholder value. Dana Gas recognises that it has a responsibility to manage risks, which in turn will protect its reputation, people, environment, communities and the interests of all its stakeholders.

Dana Gas recognises that risk is an integral and unavoidable component of its business and is characterised by both threat and opportunity. With this, we will better achieve our corporate objectives and vision of becoming the leading private sector natural gas company operating in the Middle East, North Africa and South Asia (MENASA) region.

Background and Process

In 2009, the Board of Directors mandated that a detailed business risk management review be undertaken across the Group with the key objectives of developing a risk management policy and framework and identifying the key risks facing the Group. This risk assessment review, together with a new Business Risk Management Framework and Risk Management Policy, was completed in December 2009 and approved by the Board of Directors in January 2010. The framework is an integral part of good management practice, reflecting the requirements of the UAE and other international Corporate Governance Codes and is a mandatory internal control across Dana Gas.

The Business Risk Management Framework supports effective establishment of a risk-based internal control framework through consideration of strategic, operational, financial and compliance risks. The framework covers projects, assets, business units, countries and corporate functions. The framework is designed to facilitate the systematic and continuous identification, analysis, mitigation, monitoring and communication of those risks which could threaten the Group's ability to deliver its objectives.

On an annual basis, risk workshops are held to take an aggregated corporate view of the key Group risks facing Dana Gas. These risks and the proposed mitigations are submitted to the Board on a regular basis and included in the Annual Report and Accounts.

During 2011, the risk management policy and framework will continue to be embedded throughout the organisation.

Risk Management Oversight

The Dana Gas Board has oversight of the Group's key risks and the risk management framework and receives quarterly reports on the significant risks facing the business.

At the management level, a new Risk Committee has been formed and is composed mainly of the Leadership Team. The terms of reference of the Risk Committee include oversight and monitoring of the significant risks facing the business and review of the proposed mitigation strategies. The Committee is expected to meet on a quarterly basis and the key outputs will be made available to the Board.

The Dana Gas Leadership Team allocates accountability between its members for the management of key risks across the Group. The management of business unit specific risks remains a line responsibility; however, risks are monitored at a Group level by the Risk Committee, Leadership Team and functional heads.

Risk Factors and Uncertainties

This section provides a description of the principal risks and uncertainties that could have a material adverse effect on Dana Gas' strategy, performance, results or reputation.

The Group continues to define and develop processes for identifying and managing these risks. Some of the risks listed below may be outside the control of Dana Gas and the Group may also be affected adversely by other risks and uncertainties besides those listed here.

Strategic
A number of stakeholders, including shareholders, investors, media, governments, non-governmental organisations and local communities, have legitimate interests in the Group's business and effective engagement is key to the success of the business and the Group's reputation.

Political
The success of Dana Gas depends in part upon understanding and managing the political, economic and market conditions in the many diverse economies around the MENASA region in which it does business.

Exploration and Projects
The Group's future gas and oil production is, to a significant extent, dependent upon finding, acquiring and developing new reserves and the successful completion of development projects within budgeted costs, time and technical requirements.

Operations
The Group's production volumes and revenues are dependent on the continued performance of its operational assets. Business activities conducted by the Group are often conducted with Joint Venture partners; some assets are under the day-to-day management of these partners and may therefore be subject to risks that are outside the control of the Group.

Health, Safety, Security and Environment
The production, transmission and distribution of hydrocarbons and associated products present a number of HSSE risks and the inherent potential for accidents or incidents.

Financial
The Group is exposed to liquidity risk, exchange rate risk, credit risk and commodity price risk.

Corporate Governance

Corporate Governance

Dana Gas has set out the realisation of best corporate governance practices as an essential factor in building a strong commercial name in the oil and gas sector.

"The Directors and the executive management team acknowledge their responsibility for the Group's Corporate Governance processes.

Dana Gas: Early Corporate Governance Vision

Dana Gas has set out the realisation of best corporate governance practices as an essential factor in building a strong commercial name in the oil and gas sector.

The first step in this regard was taken in April 2006 a few months after the incorporation of the company. Dana Gas commissioned the International Finance Corporation to assess a corporate governance practice within the company with the view to improve the efficiency and effectiveness of the Board of Directors, to strengthen the elements of the controlling environment and to ensure that the disclosure and transparency practices of the company are consistent with the international standards.

The Board of Directors of Dana Gas is committed to ensuring long term value growth for its shareholders and strongly believes in the role of proper corporate governance in the realisation of continued growth and in defining appropriate strategic objectives and the business plans serving such growth.

Dana Gas fully implements the Ministerial Resolution No. 518-2009 relating to Corporate Governance Regulations and Institutional Control Standards. The Board of Directors and Executive Management implement and follow-up corporate governance practices as a means to develop and improve the standards of transparency, honesty, internal control, and professional conduct and to enhance the confidence of shareholders and investors and to serve the interest of the society, employees, partners and customers locally, regionally and internationally.

Dana Gas has amended its Articles of Association in 2010 to be in line with the requirements of the Ministerial Resolution 518-2009 relating to Corporate Governance Standards.

Shareholders

The Shareholders of the company represent the peak of the corporate governance pyramid. The General Assembly is the source of all powers exercised by the other governing bodies of the company as provided by the Articles of Association of the Company/Commercial Companies Law and the rules and regulations issued by Securities and Commodities Authority and Abu Dhabi Stock Market.

Below is the list of the major shareholders as of 31 December 2010:

Shareholders	Percentage
Crescent Petroleum	20.12
Bank of Sharjah	3.06
Khalid Abdul Rahman Saleh Al-Rajhi	2.26
Government of Sharjah	2.17
National Industrial Group	2.16

Board of Directors

The Board of Directors is vested with all the powers for the management of the affairs of the company and is responsible for approving the company's strategy and business plans and to supervise and control the Executive Management.

Functions of the Board of Directors

The main responsibilities of the Board of Directors are as follows:

1. To realise long term value for the shareholders;
2. Establishment of the strategy and business plan;
3. Approval of the annual budget and the allocation of resources;
4. Defining investment priorities and approving business opportunities;
5. Supervising accuracy of financial results and reports and effectiveness of internal controls;
6. Establishing accountability procedures with appropriate powers;
7. Assessment of the executive management performance; and
8. To decide on the appointment and succession of senior executives

The Chairman leads the Board in ensuring its effectiveness and availability of the necessary information for discharging its functions.

Constitution of the Board of Directors

The Board of Directors consists of 17 members. The majority of them are leading businessmen from the GCC countries, in addition to other members with outstanding experience in the oil and gas sector.

Board of Directors	Category	Joining Date	Experience and Qualifications
Mr. Hamid Dhiya Jafar	Non-Executive Non-Independent	Nov. 2005	Mr. Hamid Jafar holds a Bachelors Engineering Degree from Cambridge University (UK) as well as post-graduate studies in Thermodynamics & Fluid Flow in 1967, followed by a Masters Degree. He is the Chairman of the Board of Dana Gas. He is also Chairman of the Board of the Crescent Petroleum Group of Companies, headquartered in Sharjah, U.A.E. Aside from his core business in oil and gas, he has a variety of regional and international commercial interests including container shipping terminal operations, trucking, logistics, private equity, and real estate. He is also a member of the Board of Trustees and Chairman of the Finance Committee of the American University of Sharjah (AUS) and has promoted important projects in higher education at Cambridge University.
Dr. Adel Al-Sabeeh	Non-Executive Independent	Nov. 2005	Dr. Al-Sabeeh holds a PhD in Mechanical Engineering from North Carolina State University, Raleigh, North Carolina, U.S.A. He held many ministerial posts earlier in Kuwait as Ministry of Oil, Electricity and Water, Housing Affairs and Health. He also held high esteemed positions at Kuwait Petroleum Company and National Industries Company.
Sheikh Sultan Bin Ahmed Sultan Al-Qasimi	Non-Executive Non-Independent	Nov. 2005	Sheikh Sultan holds Bachelor of Science Degree in Business Administration from Arkansas State University in Jonesboro, Arkansas, U.S.A., and a Masters Degree in Computer Information Systems from University of Detroit Mercy, Michigan, U.S.A. He has extensive experience in business development, tourism, media and oil fields as well as in contracting, trading and real estate.
Mr. Abdulaziz Aljomaih	Non-Executive Independent	Nov. 2005	Mr. Aljomaih holds a Masters Degree in Public Administration from the University of Southern California, USA, and holds a Bachelor of Engineering Degree with Major in Architectural Engineering from the King Saud University, Riyadh, Saudi Arabia. He is the Managing Director-Investments of Aljomaih Group of Companies and the Chairman of British Islamic Insurance Holdings in the United Kingdom, and Vice Chairman of Arcapita Bank in Bahrain. He is also a board member of Ettihad Etisalat Company in the KSA.
Mr. Abdulla Al Majdouie	Non-Executive Independent	April 2009	Mr. Almajdouie holds Bachelor of Science Degree from the College of Industrial Management, King Fahad University for Petroleum & Minerals (KFUPM), Dhahran in 1986, and Master of Business Administration (MBA) from the College of Industrial Management, KFUPM. He is the President of the Almajdouie Group since 1986. He chairs the Board of many corporations besides being a Consulting Member of Tharawat Foundation in Dubai.
Mr. Adib Al Zamil	Non-Executive Independent	Nov. 2005	Mr. Al Zamil holds a Bachelors Degree in Business Administration from Portland State University, Oregon, USA. He is the Managing Director of Finance and Investments of Zamil Group Holding Company in Saudi Arabia and has extensive experience in the Industry and Investment areas.
Mr. Ahmed Al Arbeed	Executive	Nov. 2005	Mr. Al Arbeed holds a Bachelor Degree in Petroleum and Natural Gas Engineering from Pennsylvania State University in USA. He was the Chairman and Managing Director of Kuwait Oil Company (KOC) and Kuwait foreign Petroleum Exploration Company (KUFPEC). Also he was the Chairman and Managing Director of Oil Development Company, a subsidiary to Kuwait Petroleum Corporation.
Mr. Khaled Al Rajhi	Non-Executive Independent	Nov. 2005	Mr. Khalid Al-Rajhi holds a Bachelor's Degree in Finance from the King Fahd University for Petroleum & Minerals, Saudi Arabia. He is the General Manager of Al-Rajhi Partners, Dammam and Al-Rajhi Holdings in Bahrain. He is the Chairman of ProCare Hospital, Fakhri and Rajhi Hospital and Al Salam Private Schools in Saudi Arabia.
Shaikha Hanadi Al Thani	Non-Executive Independent	April 2009	Shaikha Hanadi holds an Executive MBA from London Business School, a Bachelors Degree in Economics from Qatar University, and a Masters Degree in Economics from the University of London. Shaikha Hanadi is the Founder & Chairperson of Amwal, CEO of Al-Waab City Real Estate development project, and Deputy CEO of Nasser Bin Khaled Al Thani & Sons Group. She contributes to the Global Women's Forum, Women Business and Economics Faculty at the University of Qatar, Arab Business Ambassadors network, National Competition Council and the World Youth Foundation of achievement in Qatar.
Mr. Majid Jafar	Non-Executive Non-Independent	Nov. 2005	Mr. Majid Jafar holds Bachelor and Masters Degrees in Engineering (Fluid Mechanics and Thermodynamics) from Cambridge University (Churchill College), an MA (with Distinction) in International Studies and Diplomacy from the University of London's School of Oriental & African Studies (SOAS), and an MBA (with Distinction) from Harvard Business School. He is the Executive Director of Crescent Petroleum Group in Sharjah and is the Director of Gulftainer Limited for ports and container berths. Previously he worked at Shell International Exploration and production sectors and gas and power in London within the international group of LNG. In addition to his contribution at the Royal Institute of international affairs in London.
Mr. Nasser Al Nowais	Non-Executive Independent	April 2009	Mr. Al-Nowais holds Bachelor Degree in Business & Public Administration from New York University, USA. He served as Managing Director of Abu Dhabi Trade Centre and Chairman of Rotana Hotels, former Under-Secretary of Finance and Director of the Abu Dhabi Development Fund.

Mr. Rashad Al Zubair	Non-Executive Independent	Nov. 2005	Mr. Rashad Al-Zubair holds a Bachelors Degree in Business Administration from the University of Colorado in the U.S.A. He is Vice Chairman and Managing Director of the leading institutions of Zubair construction, tourism, automotive, banking and finance, telecommunications, oil and gas in the Sultanate of Oman. He is also the Chairman of the Omani Arab Bank, Vice-President CMA, Vice President investment Oman and Omani Business Council Vice-President.
Mr. Said Arrata	Non-Executive Non Independent	Feb. 2007	Mr. Said Arrata holds a B.Sc. Degree in Petroleum Engineering, along with several post-graduate accreditations at various universities in North America, as well as numerous oil and gas industry technical and management course diplomas. He is the President of Sea Dragon Energy Company in Canada. Formerly he was the CEO of Centurion Energy International and served in senior management positions in major global oil companies in Canada and around the world. He was the Executive Manager for two major engineering companies as well as oil and gas companies in Canada.
Dr. Tawfeeq Almoayed	Non-Executive Independent	Nov. 2005	Dr. Tawfeeq Al Almoayed holds a Bachelors Degree in Electrical Engineering with 1st Class Honors, and a PhD in Telecommunications from London University. He is the Chairman of Gulf Petrochemical Industries, Vice President for Moayed Commercial Group, Chairman of Dar El Methaq Publishing and Vice President of the Bahrain Export and Import Company as well as Chairman of the Subcommittee of Information Technology and Electronic Commerce. He also obtained Electronic Engineering Fellowship from Britain.
Mr. Varoujan Nerguizian	Non-Executive Independent	Nov. 2005	Mr. Varoujan Nerguizian holds a Bachelor Degree in Economics from Saint Joseph University in Lebanon and from Université Lyon Lumière, France. He is the Executive Member and Director of the Bank of Sharjah, General Manager of Emirates and Lebanon Bank in Lebanon. In addition to membership in the boards of other companies, he is the Founder and President of the Lebanese Fund for education and the Francophone school in Dubai.
Mr. Ziad Galadari	Non-Executive Independent	Nov. 2005	Mr. Ziad Galadari holds a Bachelor Degree in Law from the UAE University. He is the Founder and Chairman of Galadari and Associates Law Firm and legal consulting services and for Group Galadari Investment. Also he is the Chairman of the Supreme Committee for Dubai International Arabian Horse and Equestrian and Jebel Ali Equestrian and Race Federation.
Mr. Rashid Al Jarwan	Executive	Jan. 2008	Mr. Rashid Al-Jarwan holds a Bachelor Degree in Petroleum & Natural Gas Engineering from Pennsylvania State University, USA. He is the Executive Director at Dana Gas in Sharjah. He was formerly General Manager of Dana gas and Adgas Company in Abu Dhabi and Deputy General Manager of Adco and Assistant General Manager of Zadco in Abu Dhabi.

The Board includes 11 independent members: 4 non-executive members and 2 executive members. Most of the directors have occupied their seats in the Board since the incorporation of the company in November 2005 except for 3 members who were elected in April 2009.

The Directors are elected by the General Assembly every 3 years. The current Board of Directors was elected on 22 April 2009.

The current members of the Board are:

Directors	Date of Election
Mr. Hamid Dhiya Jafar (Chairman)	November 2005
Dr. Adel Khalid Al-Sabeeh (Deputy Chairman)	November 2005
Sheikh Sultan Bin Ahmed Sultan Al-Qasimi	November 2005
Mr. Abdulaziz Hamad Aljomaih	November 2005
Mr. Abdullah Ali Almajdouie	April 2009
Mr. Adib Abdulla Al-Zamil	November 2005
Mr. Ahmad Rashid Al-Arbeed	November 2005
Mr. Khalid Abdul Rahman Saleh Al-Rajhi	November 2005
Shaikha Hanadi Nasser Bint Khaled Al Thani	April 2009
Mr. Majid Hamid Jafar	November 2005
Mr. Nasser Al-Nowais	April 2009
Mr. Rashad Mohammed Al-Zubair	November 2005
Mr. Said Arrata	February 2007
Dr. Tawfeeq Abdulrahman Almoayed	November 2005
Mr. Varoujan Nerguizian	November 2005
Mr. Ziad Abdullah Ibrahim Galadari	November 2005
Mr. Rashid Saif Al-Jarwan	January 2008

Board of Directors' Meetings

According to the company's Articles of Association, the Board of Directors meets every 3 months in compliance with the Corporate Governance Regulations. The Board of Directors met six (6) times during the year 2010 in the following dates: 13 January, 17 March, 21 April, 22 June, 22 September and 24 November.

Membership of Boards of Directors of other companies

Dana Gas Board of Directors consists of leading businessmen who are members of leading companies, banks and business institutions.

Directors	Directorship in other companies
Mr. Hamid Dhiya Jafar	Chairman, Crescent Petroleum Group of Companies Chairman, Gulftainer Ltd. Chairman, The Pearl Initiative Director, URUK Group Founder, UAE Chapters of the Young Presidents Organisation and the World Presidents Organisation Member, International Chief Executives Organisation Member of the Board of Trustees and Chairman of the Finance Committee of American University of Sharjah
Dr. Adel Khalid Al-Sabeeh	Chairman and Managing Director, National Industries Company (NIC) Kuwait Chairman, Proclad Group International Ltd. (subsidiary of National Industry Group) Chairman, NIC UK Chairman, Kuwait Oil Company Chairman, Kuwait Petroleum Corporation Deputy Chairman, Ikarus Petroleum Industries Company, Kuwait Board Member, Higher Planning Board of Kuwait Member, Kuwait Foundations for Advancement Science Kuwait
Sheikh Sultan Bin Ahmed Sultan Al-Qasimi	Chairman, Sharjah Commerce and Tourism Development Authority Deputy Chairman, Sharjah Petroleum Council Chairman, Sharjah Pipeline Company (Anabeeb) Chairman, Basma Group Deputy Chairman, Sharjah LPG Co. Deputy Chairman, Sharjah Equestrian & Racing Club Chairman, Sharjah Media Corporation

Mr. Abdulaziz Hamad Aljomaih	Chairman, British Islamic Insurance Holdings, UK Vice-Chairman, Arcapita Bank, Bahrain Board of Director, Ettihad Etisalat Company, KSA Managing Director, Investments of Aljomaih Group of Companies Managing Director, Pergola Holding & its subsidiaries
Mr. Abdullah Ali Almajdouie	Chairman, Almajdouie Group Chairman, Heavy Lift Co.-Bahrain Chairman, Almajdouie De Rijke Logistic Co. Chairman, Rabigh Petrochemical Logistic LLC Chairman, Maxx Logistics, Dubai Chairman, Star Marines Services, Dubai Board Member, Arbah Capital Investment Company Board Member, Prince Mohammed Bin Fahad University Board Member, Makhazen Co. Abu Dhabi Consulting Member, Tharawat, Dubai
Mr. Adib Abdulla Al-Zamil	Managing Director, Finance and Investments of Zamil Group Holding Company Director, Zamil Industrial and Investment Company (ZIIC) Director, Bank Al-Bilad (Saudi Joint Stock Company) Director, Gulf Guard Director, Methanol Chemical Co. Ltd (CHEMANOL) Board Member, Jadwa Investments
Mr. Ahmad Rashid Al-Arbeed	Ex-Chairman and Managing Director, Kuwait Oil Company (KOC) and Kuwait Foreign Petroleum Exploration Company (KUFPEC) Ex-Chairman and Management Director, Oil Development Company (ODC) Ex-Board Member, Kuwait Petroleum Corporation
Mr. Khalid Abdul Rahman Saleh Al-Rajhi	Chairman, Fakri & Rajhi Hospital, Saudi Arabia Board Member, Etisalat Telecommunications, Saudi Arabia Board Member of Saudi Telecom Company Board Member of Bank Al Bilad Board Member of Walaa Insurance Company Member of the Higher Consul, Easter Province (Governmental Sector) Chairman, Procare Hospitals, Saudi Arabia Chairman, Al-Salam Schools, Saudi Arabia Former Board Member of Saudi Cement Company
Shaikha Hanadi Nasser Bint Khaled Al Thani	Founder and Chairperson, AMWAL, Qatar CEO, Al-Waab City Real Estate Development Project, Qatar Deputy CEO, Nasser Bin Khaled Al Thani & Sons Group, Qatar Board of Trustee, Arab Women's International Forum Board of Trustee, College of Business and Economics, Qatar University Member, Advisory Board of The Arab Business Angels Network (ABAN) Founding member, Qatar National Competitiveness Council Chairperson, INJAZ Qatar Board Member, INJAZ AL-ARAB
Mr. Majid Hamid Jafar	Executive Director, Crescent Petroleum Group, Sharjah, UAE Director, Gulftainer Ltd. Board Member, Arab Forum for Environment and Development (AFED) Board Member, Sharjah Chamber of Commerce Board Member, Sharjah Expo Board Member, Iraqi-British Friendship Society
Mr. Nasser Al-Nowais	Managing Director, Abu Dhabi Trade Center Chairman, Aswaq Management & Services Chairman, Rotana Hotel Management Corp Ltd. Former Chairman, Abu Dhabi National Hotels Company Former Under-Secretary, UAE Ministry of Finance Former Chairman, Arab Insurance Group
Mr. Rashad Mohammed Al-Zubair	Chairman, Zubair Corporation, Sultanate of Oman Chairman, Oman Arab Bank Chairman, Lebanon-Oman Business Council Deputy Chairman, Oman International Development and Investment Company SAOG (OMINVEST), Oman Vice Chairman, Oman Business Council Former Director, Capital Market Authority
Mr. Said Arrata	Chairman, Sea Dragon Board Member, Fuel X Energy Board Member, Deep Well Oil and Gas Former Chairman, Centurion Energy International
Dr. Tawfeeq Abdulrahman Almoayed	Founding Chairman & Managing Director, Gulf Petro-Chemical Industries Co. Chairman, A.K. Almoayed Group WLL Chairman, Almoayed Wilhelmsen Ltd. Member, British Institution of Engineering and Technology Former First Deputy Chairman, Bahrain Telecommunications Co. (BATELCO) and Executive Committee Member
Mr. Varoujan Nerguizian	Executive Director and General Manager, Bank of Sharjah, UAE Chairman and General Manager, Emirates Lebanon Bank SAL, Lebanon Director, Growthgate Founding Member and Chairman, Lebanese Educational Fund SA and Lycee Libanais Francophone Prive, Dubai
Mr. Ziad Abdullah Ibrahim Galadari	Founder & Chairman, Galadari & Associates Chairman, Galadari Investments Group Director, Dubai World Trade Centre Director, DU Telecommunications Services Chairman, Dubai International Arabian Horse Championship and Jebel Ali Race Course Council Vice-Chairman, UAE Equestrian and Racing Federation
Mr. Rashid Saif Al-Jarwan	Board Member, Emirates General Petroleum Corporation (EMARAT) Board Member, Oman Insurance Company Ex-Board Member, National Petroleum Construction Co. Ex-Board Member, National Drilling Co. Ex-Board Member, FERTIL, Abu Dhabi Ex-Board Member, Sharjah Industrial Development

Board of Directors Committees

There are three (3) board committees: Board Steering Committee, Audit Committee and Nominations and Remuneration Committee. The committees have been vested with the necessary powers to discharge their functions in accordance with Ministerial Resolution No. 518-2009.

The Board Steering Committee

The members of the Board Steering Committee are:

Members of the Committee	Title
Mr. Hamid Dhiya Jafar	Chair
Dr. Adel Khalid Al-Sabeeh	Deputy Chair
Dr. Tawfeeq Abdulrahman Almoayed	Member
Mr. Varoujan Nerguizian	Member
Mr. Said Arrata	Member
Mr. Ziad Abdullah Ibrahim Galadari	Member
Mr. Ahmed Rashid Al Arbeed	Member
Mr. Rashid Saif Al-Jarwan	Member

The role of the Board Steering Committee is to assist the Board in supervision and control of the activities of the Executive Management of the company. And to take decisions between the meetings of the Board in relation to certain matters including urgent matters relating to capital and operating expenditures, and new business opportunities and to make recommendations to the Board as appropriate.

The Audit Committee

The Audit Committee consists of the following members:

Members of the Committee	Title
Mr. Varoujan Nerguizian	Chair-Independent Director
Sheikh Sultan Bin Ahmed Sultan Al-Qasimi	Non-Executive Member
Mr. Abdulaziz Hamad Aljomaih	Independent Director
Mr. Abdullah Ali Almajdouie	Independent Director
Mr. Khalid Abdul Rahman Saleh Al-Rajhi	Independent Director
Mr. Nasser Al-Nowais	Independent Director

Most of the members of the Audit Committee come from a financial business or banking background and are very familiar with financial and audit operations.

The role of the Audit Committee is to assist the Board of Directors in performing its function of supervision over the finances of the company and ensuring compliance with applicable regulations. The committee exercises the functions prescribed by the Ministerial Resolution No. 518-2009 including:

1. Reviewing the quarterly financial statements;
2. Supervising the preparation and compiling of the company's financial statements, and the procedure for preparation of financial reports;
3. Ensuring the soundness and correctness of the company's financial statements;
4. Review of risk management and internal control procedures;

5. Recommendation of the fees of the company's external auditors; and
6. Recommendation relating to the Internal Audit Department's organisation plus activities.

The company is examining the relationship and transactions between Dana Gas and the bank presided by the Chair of the Audit Committee to ascertain whether these transactions fall within the definition of Independent Director as defined in the Ministerial Resolution No. 518-2009. The company's Legal Advisor will submit a legal opinion on the matter to the Audit Committee to enable it to make appropriate recommendations to the Board of Directors in accordance with the requirements of the Ministerial Resolution No. 518-2009.

Nominations and Remuneration Committee

The Nominations and Remuneration Committee is composed of the following:

Members of the Committee	Title
Dr. Tawfeeq Abdulrahman Almoayed	Chair-Independent Director
Mr. Majid Hamid Jafar	Non-Executive Member
Shaikha Hanadi Nasser Bint Khaled Al Thani	Independent Director
Mr. Said Arrata	Non-Executive Member
Mr. Ziad Abdullah Ibrahim Galadari	Independent Director
Mr. Adib Abdullah Al-Zamil	Independent Director
Mr. Rashad Mohammed Al-Zubair	Independent Director

The majority of the members of the Committee including its Chair are independent and possessed of considerable knowledge and expertise in Corporate Governance, Remuneration and Salaries and Benefits policies.

The Committee ensures the effectiveness of the procedures and processes of the General Assembly and the Board of Directors and assists the Board in relation to the appointment and succession of senior executives, appraisal of executive performance, succession plans, remuneration policies and nominations to the Board of Directors membership as provided by the Ministerial Resolution No. 518-2009.

The Committee exercises the following functions:
1. Establishing remuneration, salary, benefits and incentives policies;
2. Preparation of human resources policies;
3. Recommending corporate governance standards and guidelines and supervising the Board of Directors' procedures and performance;
4. Supervising and reviewing financial disclosure standards;
5. Reviewing directors' remuneration and making appropriate recommendations to the Board;
6. Review and approval of senior employees' succession plans;
7. Ensuring and maintaining good relationships with shareholders, investors and regulators; and
8. Conducting and supervising nominations to the Board of Directors.

Directors' Remunerations

The directors receive an annual payment in addition to an attendance fee. The Nominations and Remuneration Committee propose the annual directors' remuneration and if it is endorsed by the Board, it will be submitted to the General Assembly for approval. Director's remuneration is disclosed in the annual financial statements of the company. The Executive Directors are not entitled to any directors' remuneration.

Functions delegated by the Board of Directors to the Executive Management

1. Management of the business of the company and its day to day administration to achieve company's strategies and to execute the policies and plans laid down by the Board of Directors;
2. To provide the Board of Directors through accurate periodical reports about the financial position of the company, its business, actions taken to manage risks and internal control operations;
3. To provide the Board of Directors with all information and documents required for the meetings of the Board of Directors on a timely basis;
4. Submit studies and recommendations relating to business development and investment opportunities;
5. To provide regulatory bodies (Ministry of Economy, Securities and Commodities Authority, Abu Dhabi Stock Market) with information, statements and documents as required in accordance with applicable laws, rules and regulations.

Code of Conduct

Dana Gas' Code of Conduct requires strict compliance with laws, regulations and humanitarian and ethical values by directors, employees and related parties.

The Code of Conduct ensures due respect to all employees and stakeholders without discrimination. It provides for the disclosure of conflict of interests situations, protection of the assets and information of the company, the health, safety and security of employees, the public and the environment and bans offering any donations in cash or in kind to political groups or parties in the name of the company.

Dealings in the Securities of the Company

The company has issued the guidelines in governing dealings by directors and employees in the securities of the company or subsidiaries and sister companies.

Guidelines include all the relevant provisions in the regulations and rules issued by the Securities and Commodities Authority and Abu Dhabi Stock Exchange. It also defines the periods during which directors and employees are not allowed or permitted to deal in the company's securities. None of the directors or employees has dealt with the company's securities during the bans periods defined in the Securities and Commodities Authority Resolution No. 2-2001.

Disclosure and conflict of interest

To ensure compliance with the legal and disclosure requirements, the directors are required:
1. to disclose directorships in other companies and to obtain consent of the Board of Directors to such directorships;
2. to disclose business and commercial activities connected directly or indirectly with the business of Dana Gas;
3. to disclose any material interests to which Dana Gas is a party;
4. not to participate in or try to influence any decision which may give rise to conflict of interest;
5. not to offer or accept any gifts, bribes which may influence decisions; and
6. to notify the Board of Directors of any activities with competitors or suppliers or other bodies in partnership with Dana Gas which may give rise to conflict of interest.

The Directors submit to the company a disclosure document covering the above subjects which is updated annually. The company also discloses to the shareholders all material transactions with companies owned or related to the shareholders or the Board of Directors or the Executive Management and any dealings in the Company Securities by the Directors and senior executives.

Internal Control System

The Board of Directors established an Internal Control Department defined with its functions and powers and appointed a manager for the department who reports directly to the Board of Directors in accordance with the following:
1. to assess and scrutinise the various risks facing the company;
2. to prepare a risks' register to be updated quarterly and annually;
3. to prepare an audit plan for the risks and the register in accordance with the directions of the Board of Directors and the Audit Committee;
4. to ensure availability of resources to carry out audit work and internal audit plan; and
5. to implement the plan and submit a periodical report to the Board of Directors and to the Audit Committee with its observations and the actions taken by the Executive Management with respect to them.

The Internal Control Department enjoys independence in performing its functions. It reports to the Board of Directors which acknowledges its responsibility for the internal control system and its effectiveness.

Corporate Social Responsibility

Dana Gas business activities span a number of countries including United Arab Emirates, Iraq, GCC and other Arab countries. From the outset, the company's objective has been to lay an active role and development and support of local communities. Dana Gas has currently implemented a number of projects and programs in education, health and social activities in accordance with an annual corporate social responsibility plan approved by the Board of Directors.

External Auditors Fees

The Annual General Assembly appoints the external auditors on an annual basis. The Annual General Meeting held in April 2010 appointed Ernst & Young as external auditors for the company's financial accounts for the year 2011. The external auditors' fees are disclosed in the annual financial statements. The fees for 2010 amounted to AED 350,000. The external auditors do not provide any other services other than the audit of the accounts.

General Information

Communication with Shareholders

Dana Gas is keen to maintain regular contacts with its shareholders through periodical press releases and meetings with groups of shareholders. Information about the company's activities and its financial affairs are available at the company's website www.danagas.ae.

The Executive Management holds regular meetings with investors, shareholders, and financial analysts to review and discuss the company's business activities and financial position.

Shareholders are given ample opportunity to ask questions to the Board and to the Executive Management during the meetings of the General Assembly.

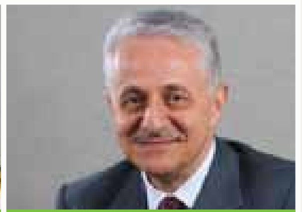
Compliance during 2010

The company has been fully compliant during 2010.

Mr. Hamid Jafar
Chairman 01 April 2011

Board Members


H.H. Sheikh Ahmed Al-Qasimi
Honorary Chairman


Mr. Hamid Jafar
Chairman


Dr. Adel Al Sabeeh
Deputy Chairman


Mr. Ahmed Al Arbeed
Chief Executive Officer


H.H. Shaikha Hanadi Al Thani
Director


Sheikh Sultan Al Qasimi


Mr. Adib Al Zamil
Director


Mr. Nasser Al Nowais
Director


Mr. Khalid Al Rajhi
Director


Mr. Abdullah Al Majdouie
Director


Mr. Abdulaziz Hamad Aljomaih
Director

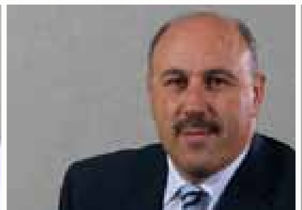

Mr. Rashad Al Zubair
Director


Mr. Rashid Saif Al-Jarwan
Executive Director


Mr. Said Arrata
Director


Mr. Majid Jafar
Director


Dr. Tawfeeq Almoayed
Director


Mr. Varoujan Nerguizian
Director


Mr. Ziad Galadari
Director

International Advisory Board

International Advisory Board
Dana Gas has adopted the concept of the International Advisory Board (IAB).

The purpose of this board is to provide strategic advice to the board of directors and the management, as well as to identify specific business opportunities and build relationships worldwide.

International Advisory Board:
(Left to Right)

Dr. Nader Sultan
Former CEO of Kuwait Petroleum Corporation and Director of the Oxford Energy Seminar

Dr. Joseph Stanislaw
Former CEO of Cambridge Energy Research Associates (CERA)

Dr. Burckhard Bergmann
Member of the board of Russian gas company Gazprom

Sir Graham Hearne
Chairman of the International Advisory Board, former Chairman of Enterprise Oil Plc of the UK

Lord Simon of Highbury
Former Chairman of British Petroleum (BP)

Mr. Kai Hietarinta
Former Vice-Chairman of Neste Oy of Finland

H.E. Nordine Ait-Laoussine
Former Algerian Oil Minister and former Head of Sonatrach


SajGas Plant, UAE

Our People

Our people are the strength of our business

“Talent and career development underpin our Group’s business strategy and continue to be one of our main priorities.

Dana Gas is becoming increasingly recognised and respected across the region as a capable and effective operator. For a company as young as ours, just five years old, this is a notable achievement and is in large part due to the excellence of our people. We are proud of our progress and our ability to attract and develop talent.

Dana Gas employs around 350 people in the MENASA region with the majority in Sharjah, Egypt and the Kurdistan Region of Iraq. Our diversified workforce consists of more than twenty-four different nationalities.

Our people are resourced and remunerated in line with our strategy to attract and retain the best technical, functional and business talent necessary to underpin the successful delivery against our corporate targets as approved by the Board of Directors. We are convinced that this is the key factor for the Dana Gas Group to ultimately enhance shareholder value.

Resourcing, Attraction and Retention Philosophies
Our success depends on the talent and commitment of our employees. We strive to create an inclusive workplace that seeks men and women from different cultural/ethnic backgrounds, competencies, lifestyles, generations and perspectives. We provide appropriate career development and are strongly committed to our code of conduct. This has helped us to build the diverse and robust community that is Dana Gas today.

We work hard and are highly selective, to ensure that we recruit the best people. Dana Gas was able to continue its success in building capacity and capability at all levels, combining global and regional searches to identify and attract talent. It is part of our evolving culture to value expertise in a way that will generate the necessary talent that we require across the Group now and for the future.

Our compensation and remuneration philosophy continues to recognise and incentivise performance and align employees to shareholders’ interests.

Talent and career development underpin our Group’s business strategy and continue to be one of our main priorities. We do recognise that our success depends on the success of our employees and we therefore provide particular attention to individual training.

Internal Consultation, Communication and Feedback
Employees are a vital stakeholder group. We value their feedback and experience on how we run our business. We keep our people informed and consult them about changes that affect them as well as the Group. Openness towards people and new ideas are key elements that we nourish and encourage.

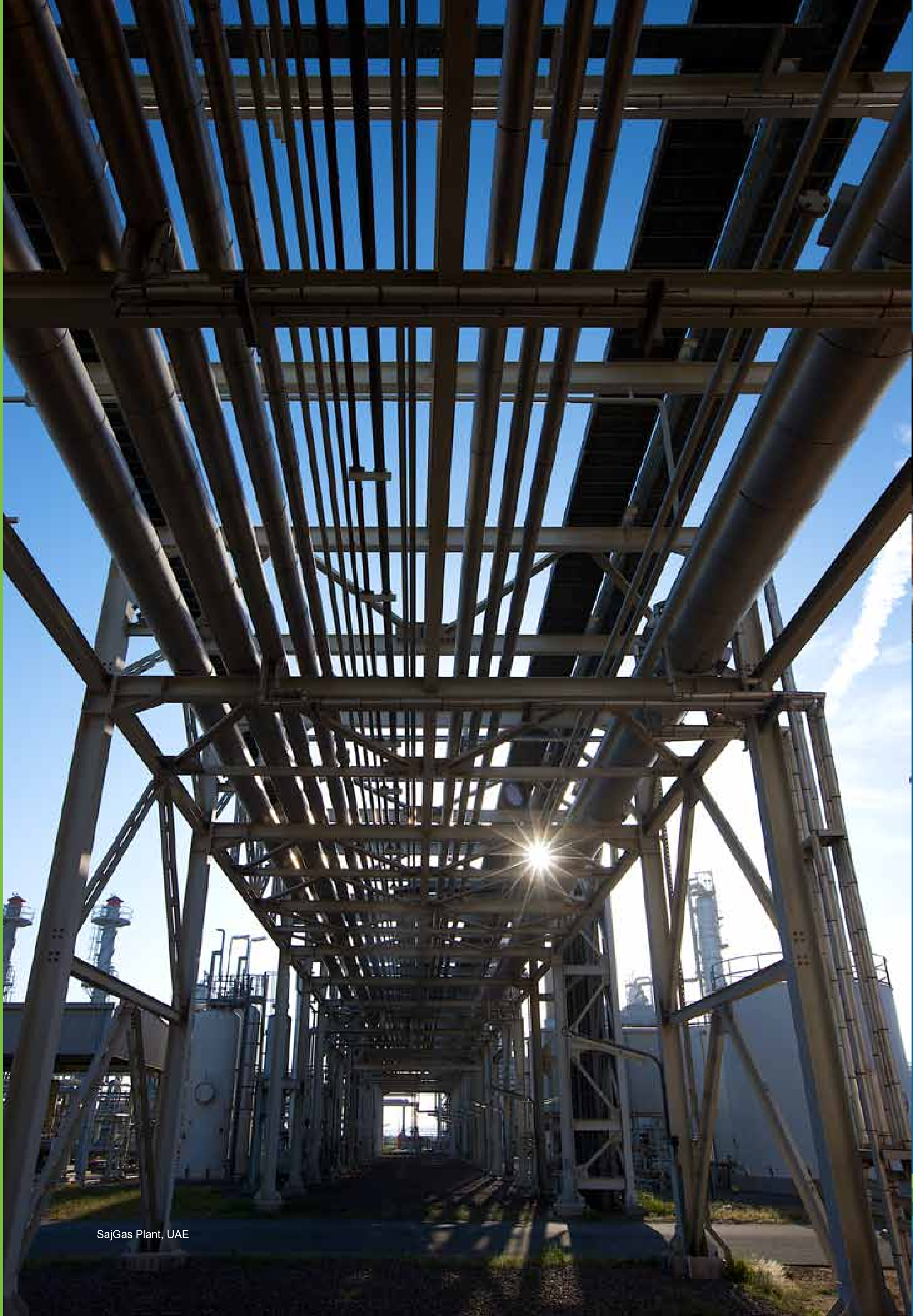
Diversity
We believe that diversity in the workplace brings competitive advantage. Employees from diverse cultures and backgrounds bring insights and add value to our business. Dana Gas is committed to equal opportunities and we select on merit alone and do not condone discrimination of any kind.

Training and Development
We believe in training and coaching, and encourage employees to develop with us, both personally as well as professionally. Where it is beneficial to the employee and the organisation, we encourage transfers between business units in the Group which in turn transfers technical skills and develops talent. We offer a variety of training opportunities, both internal and external, according to agreed individual development programmes to help our employees develop a broad range of skills, as well as the competencies specific to their role.

Performance Management and Performance Evaluation
Open dialogue about performance and development opportunities helps to motivate our employees. We encourage line managers to coach employees continuously. We understand that praise is an important motivator and want to create a team-spirit where we recognise achievement and support each other.

As we look ahead to 2011, we continue our journey towards developing our “capability framework” describing the capabilities and behaviours needed to deliver broader and more complex services. Mapping such a framework will help Dana Gas identify the skills, attributes and qualities required to help us continue resourcing, developing and retaining talent.

We are also continuing the implementation of processes and systems to develop and enhance our internal communications across the Group and encourage an open and honest dialogue among employees, departments, functions and operating units.



SajGas Plant, UAE

Corporate Social Responsibility

Corporate Social Responsibility

“Dana Gas seeks an active role as an agent of change and wishes to contribute to the development of the communities in which it operates.

For Dana Gas, corporate social responsibility (CSR) is about directly contributing to economic and social development in a way that safeguards natural resources and the environment whilst respecting the rights of each individual.

We are focused on delivering superior and sustainable long-term value to all stakeholders, while making a positive contribution to the societies in which we operate.

During 2010, our contributions were in the UAE, Egypt and the Kurdistan Region of Iraq and were focused on the environment, health, schools and education.

UAE

Educating the Next Generation to Care for our Environment
Dana Gas is working closely with Bee’ah, a public private company in partnership with the Sharjah City Municipality, on a comprehensive bilingual (English Arabic) programme to educate the school children of Sharjah in the importance of caring for the environment with the focus being waste management and the three R’s: Reduce, Recycle and Re-use. The work takes the form of both interactive sessions with pupils as well as the provision of digital tools to teachers enabling us to reach over 100,000 students of grades 1 to 12 residing in Sharjah. This programme was launched in September of 2010.

Encouraging the Sharing of Knowledge
Dana Gas is actively pursuing the sponsorship of a fellow in Petroleum Resources between Cambridge University and the American University of Sharjah for a five-year term. In addition to carrying out research and teaching duties at each institution, the Fellow will also organise industry-focused workshops in Sharjah.

Kurdistan Region of Iraq

Providing Local Employment
64% of the contracted and casual labour force working for us in the Kurdistan Region of Iraq is from a 30-km radius of the Khor Mor gas plant, providing significant employment opportunities.

Clean Water Project
As a part of identifying high impact neighbourhood community give-back programmes, our project team in the Kurdistan Region of Iraq identified three nearby villages that faced the everyday problem of clean water availability. Water had to be collected from a source some three hours’ walking distance, which was done through the extremes of the winters and summers and across rough terrain. As a part of giving back to community, a 10 km pipeline was laid from a water well (previously drilled by the project team) to three villages. This was followed up with laying a combination of 1.2 km of small-size pipelines to the taps of houses and connecting over six large storage tanks in these villages. As a result, these villages now have access to a continuous supply of clean water, allowing the ladies of the villages to devote more time to family care and ensuring the children are attending education.

Ongoing Support to the Local Community
In addition to the water project, the Khor Mor team have provided books, furniture and used computers to three nearby schools as well as providing continued support and minor repairs to existing infrastructure to help the community run these schools efficiently. They have also helped in regularly repairing generator sets to ensure villages have their lights on through all seasons.

Egypt

Dana Gas seeks an active role as an agent of change and wishes to contribute to the development of the communities in which it operates in Egypt.

Renovation of Sharabas Primary School
Dana Gas renovated the Sharabas Primary School, a school of some 730 pupils and 40 teachers, in the Faraskour District of the Damietta Governate. The fabric of the building was upgraded and repaired, and new furniture and classroom equipment provided along with training for the teachers in the use of the new classroom technologies. This comprehensive programme has ensured that the improved facilities at the school are exploited to the full.

Health Units Refurbishment Project
Renovation works have been carried out at the San El Hagar El Baharia Primary Health Care Unit in the Hesanya District in the Sharkia Governate. In addition to renovating the infrastructure of the facility, the equipment and systems used have been upgraded, and training has been provided to ensure that the highest quality health services are provided to the community. Additionally the link between the health unit and the surrounding community is being strengthened by raising public awareness of hygiene and health related issues.

Auditors' Report and Financial Statements


SajGas Plant, UAE

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 statement of financial position as at December 2010, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flow and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements
The Directors are responsible for the preparation and fair presentation of these 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) and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 2010, its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

Signed by
Ali H. Issa (Registration No.488)
For Ernst & Young

Sharjah, United Arab Emirates
23rd February 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 USD mm	2010 AED mm	2009 USD mm	2009 AED mm
Revenue		**487**	**1,785**	349	1,279
Royalties		**(137)**	**(502)**	(111)	(407)
Net revenue	5	**350**	**1,283**	238	872
Cost of sales		**(33)**	**(121)**	(33)	(121)
Depreciation and depletion	11	**(104)**	**(381)**	(86)	(315)
Gross profit		**213**	**781**	119	436
Investment and finance income	6	**8**	**29**	10	37
Other income	7	**3**	**11**	331	1,213
Provision for impairments	8	**(5)**	**(18)**	(116)	(425)
Change in fair value of investment property	14	**(2)**	**(7)**	(71)	(260)
General and administration expenses		**(33)**	**(121)**	(27)	(99)
Finance costs	9	**(56)**	**(205)**	(55)	(202)
Exploration expenditure	11	**(13)**	**(48)**	(119)	(436)
PROFIT BEFORE TAX		**115**	**422**	72	264
Income tax expense		**(72)**	**(264)**	(48)	(176)
PROFIT FOR THE YEAR		**43**	**158**	24	88
Basic and diluted earnings per share (USD/AED per share)	10	**0.006**	**0.024**	0.004	0.013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 USD mm	2010 AED mm	2009 USD mm	2009 AED mm
Profit for the year	**43**	**158**	24	88
Other comprehensive income:				
Gain on available-for-sale financial asset (note 13)	**32**	**118**	101	370
Other comprehensive income for the year	**32**	**118**	101	370
Total comprehensive income for the year	**75**	**276**	125	458

The attached notes 1 to 31 form part of these consolidated financial statements

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 USD mm	2010 AED mm	2009 USD mm	2009 AED mm
ASSETS					
Non-current assets					
Property, plant and equipment	11	**1,045**	**3,828**	941	3,449
Intangible assets	12	**1,355**	**4,967**	1,379	5,055
Available-for-sale financial asset	13	**315**	**1,155**	283	1,037
Investment property	14	**37**	**136**	39	143
		2,752	**10,086**	2,642	9,684
Current assets					
Inventories	15	**51**	**187**	46	169
Trade and other receivables	16	**255**	**935**	199	728
Due from related parties		**1**	**3**	2	7
Financial assets at fair value through profit or loss	17	**10**	**37**	9	33
Cash and cash equivalents	18	**159**	**583**	213	781
		476	**1,745**	469	1,718
TOTAL ASSETS		**3,228**	**11,831**	3,111	11,402
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	19	**1,801**	**6,600**	1,637	6,000
Statutory reserve		**34**	**125**	30	113
Legal reserve		**34**	**125**	30	113
Retained earnings		**112**	**409**	243	882
Other reserves	20	**142**	**521**	107	392
Convertible bonds- equity component		**48**	**176**	48	176
Attributable to shareholders of the Company		**2,171**	**7,956**	2,095	7,676
Non-controlling interest		**3**	**11**	4	15
Total equity		**2,174**	**7,967**	2,099	7,691
LIABILITIES					
Non-current liabilities					
Borrowings	21	**897**	**3,288**	871	3,193
Provisions	22	**17**	**62**	14	51
		914	**3,350**	885	3,244
Current liabilities					
Trade payables and accruals	23	**140**	**514**	127	467
		140	**514**	127	467
Total liabilities		**1,054**	**3,864**	1,012	3,711
TOTAL EQUITY AND LIABILITIES		**3,228**	**11,831**	3,111	11,402

Director
23 February 2011

Director
23 February 2011

The attached notes 1 to 31 form part of these consolidated financial statements

Consolidated Cash Flow Statement

Year ended 31 December 2010

	Notes	2010 USD mm	2010 AED mm	2009 USD mm	2009 AED mm
OPERATING ACTIVITIES					
Profit before tax		**115**	**422**	72	264
Adjustments for:					
Depreciation and depletion	11	**104**	**381**	86	315
Investment and finance income	6	**(8)**	**(29)**	(10)	(37)
Change in fair value of investment property	14	**2**	**7**	71	260
Other income/expenses		**-**	**-**	(331)	(1,213)
Finance costs	9	**56**	**205**	55	202
Exploration expenditure	11	**13**	**48**	119	436
Provision for impairments	8	**5**	**18**	116	425
Board compensation		**(2)**	**(7)**	(2)	(7)
		285	**1,045**	176	645
Changes in working capital:					
Trade and other receivables		**(101)**	**(371)**	(41)	(150)
Inventories		**(5)**	**(18)**	(1)	(4)
Trade payables and accruals		**23**	**85**	21	77
Due from related parties		**1**	**3**	(2)	(7)
Net cash generated from operating activities		**203**	**744**	153	561
Income tax paid		**(72)**	**(264)**	(48)	(176)
Net cash from operating activities		**131**	**480**	105	385
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(136)**	**(498)**	(151)	(556)
Expenditure on intangibles	12	**(34)**	**(125)**	(66)	(242)
Proceeds from sale of interest in joint venture	25	**-**	**-**	177	650
Proceeds from sale of interest in Komombo	25	**35**	**128**	-	-
Investment and finance income received		**7**	**26**	9	32
Others		**2**	**7**	-	-
Net cash used in investing activities		**(126)**	**(462)**	(31)	(116)
FINANCING ACTIVITIES					
Proceeds from borrowings		**10**	**37**	-	-
Repurchase of own convertible bonds		**-**	**-**	(10)	(37)
Finance costs paid		**(69)**	**(253)**	(68)	(249)
Net cash used in financing activities		**(59)**	**(216)**	(78)	(286)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(54)**	**(198)**	(4)	(17)
Cash and cash equivalents at the beginning of the year		**213**	**781**	217	798
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18	**159**	**583**	213	781

The attached notes 1 to 31 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity

At 31 December 2010

	Attributable to shareholders of the Company							
	Share capital		Statutory reserves		Legal reserves		Retained earnings	
	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm
At 31 December 2008	1,637	6,000	28	104	28	104	225	819
Profit for the year	-	-	-	-	-	-	24	88
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	24	88
Board compensation	-	-	-	-	-	-	(2)	(7)
Transfer to reserves	-	-	2	9	2	9	(4)	(18)
Share based payment	-	-	-	-	-	-	-	-
Addition to non-controlling interest	-	-	-	-	-	-	-	-
At 31 December 2009	**1,637**	**6,000**	**30**	**113**	**30**	**113**	**243**	**882**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**43**	**158**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**43**	**158**
Board compensation	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**(7)**
Transfer to reserves	**-**	**-**	**4**	**12**	**4**	**12**	**(8)**	**(24)**
Share based payment (note 27)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issue of bonus share (note 19)	**164**	**600**	**-**	**-**	**-**	**-**	**(164)**	**(600)**
Loss to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2010	**1,801**	**6,600**	**34**	**125**	**34**	**125**	**112**	**409**

The attached notes 1 to 31 form part of these consolidated financial statements

Consolidated Statement of Changes in Equity (continued)

At 31 December 2010

	Attributable to shareholders of the Company							
	Other reserves		Convertible bonds-equity component		Non-controlling interest		Total	
	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm
At 31 December 2008	4	15	48	176	1	3	1,971	7,221
Profit for the year	-	-	-	-	-	-	24	88
Other comprehensive income	**101**	**370**	-	-	-	-	**101**	**370**
Total comprehensive income for the year	101	370	-	-	-	-	125	458
Board compensation	-	-	-	-	-	-	(2)	(7)
Transfer to reserves	-	-	-	-	-	-	-	-
Share based payment	2	7	-	-	-	-	2	7
Addition to non-controlling interest	-	-	-	-	**3**	**12**	**3**	**12**
At 31 December 2009	**107**	**392**	**48**	**176**	**4**	**15**	**2,099**	**7,691**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**43**	**158**
Other comprehensive income	**32**	**118**	**-**	**-**	**-**	**-**	**32**	**118**
Total comprehensive income for the year	**32**	**118**	**-**	**-**	**-**	**-**	**75**	**276**
Board compensation	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**(7)**
Transfer to reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share based payment (note 27)	**3**	**11**	**-**	**-**	**-**	**-**	**3**	**11**
Issue of bonus share (note 19)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loss to non-controlling interest	**-**	**-**	**-**	**-**	**(1)**	**(4)**	**(1)**	**(4)**
At 31 December 2010	**142**	**521**	**48**	**176**	**3**	**11**	**2,174**	**7,967**

The attached notes 1 to 31 form part of these consolidated financial statements

Notes to the Consolidated Financial Statements

At 31 December 2010

1 ACTIVITIES

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

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

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

Principal subsidiaries and jointly controlled entities of the Group at 31 December 2010 and the group percentage of ordinary share capital or joint venture interest are set out below:

Subsidiaries	%	Country of incorporation	Principal activities
Dana Gas LNG Ventures	100	British Virgin Island	Oil and Gas exploration & production
Dana Gas Egypt (previously Centurion)	100	Barbados	Oil and Gas exploration & production
Sajaa Gas Private Limited Company ("SajGas")	100	Emirate of Sharjah, UAE	Gas Sweetening
United Gas Transmissions Company Limited ("UGTC")	100	Emirate of Sharjah, UAE	Gas Transmission
Danagaz (Bahrain) WLL	66	Bahrain	Gas Processing

Joint Ventures	%	Country of operations	Principal activities
Pearl Petroleum Company Limited ("Pearl Petroleum")	40	Kurdistan Region of Iraq	Oil and Gas exploration & production
UGTC / Emarat	50	Emirate of Sharjah	Gas Transmission
CNGCL	35	Emirate of Sharjah	Gas Marketing
EBGDCO	26.4	Egypt	Gas Processing
GASCITIES Ltd	50	MENASA	Gas Cities

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Statement of compliance

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedge Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009

The adoption of the standards or interpretations is described below:

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised and the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The above amendment had no impact on the Group's financial statements.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedge item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The amendment has no impact on the financial position or performance of the Group.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no affect on either the financial position nor performance of the Group.

Notes to the Consolidated Financial Statements

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation

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

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

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

(b) Transactions and non-controlling Interests
Non controlling interests represent the portion of profit or loss and net assets not held by Group and are presented separately in the Consolidated Income Statement and within equity in Consolidated Statement of Financial Position, separately from Parents's equity. The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group and are recorded in the income statement. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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

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

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

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

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

The statement of financial position of subsidiaries and joint ventures with functional currencies other than US Dollars are translated using the closing rate method, whereby assets and liabilities are translated at the rates of exchange ruling at the statement of financial position date. The income statements of such subsidiaries and joint ventures are translated at average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). Any goodwill arising on the acquisition of such operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the operation and translated at the closing rate. Exchange differences arising on the retranslation of net assets are taken directly to equity. On the disposal of such entities, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment is stated at cost net of accumulated depreciation and/or accumulated impairment losses, if any. Land is not depreciated.

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

Oil and gas properties	unit-of-production
Buildings	25 years
Gas plant	15 - 25 years
Pipelines & related facilities	25 years
Other assets:	
Computers	3 years
Furniture and fixtures	3 years – 5 years
Vehicles	3 years – 5 years
Leasehold improvements	over the expected period of lease

Notes to the Consolidated Financial Statements

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

The assets' residual values and useful lives are reviewed at each financial year end, and adjusted prospectively if appropriate.

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

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

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

Oil and gas assets

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

(a) Depletion
Oil and gas properties are depleted using the unit-of-production method. Unit-of-production rates are based on proved reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods.

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

Intangible assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

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

Goodwill

Goodwill 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 proved 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.

Notes to the Consolidated Financial Statements

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

An assessment is made at each statement of financial position 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 amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Financial assets

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

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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

(c) Available-for-sale financial assets
Available-for-sale (AFS) financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date. After initial measurement, AFS investments are subsequently measured at fair value with unrealised gains or losses recognised as "Other comprehensive income" in the AFS reserve until the investment is derecognised. At that time cumulative gain is recognised in other income and cumulative loss is recognised as Finance costs and removed from AFS reserve.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

Inventories

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

Trade and other receivables

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

Cash and cash equivalents

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

Trade payable and accruals

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

Provisions

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

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

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

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

Notes to the Consolidated Financial Statements

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of respective assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as finance cost in the income statement in the period in which they are incurred.

Leases

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

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

Profit-bearing loans and borrowings

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

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

Convertible bonds

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

Share based payment transactions

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment transactions (continued)

Equity-settled transaction (continued)

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

Restricted shares
Service-based restricted shares are granted at no cost to key employees and generally vest one third each year over a three year period from the date of grant. Restricted shares vest in accordance with the terms and conditions established by the Board of Directors and are based on continued service.
The fair value of service-based restricted shares is determined based on the numbers of shares granted and the closing price of the Company's common stock on the date of grant. The cost is being amortized on a straight line method, based on the vesting period.

Revenue recognition

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

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

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

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

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

- Impairment of goodwill: The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was USD 308 million (2009: USD 308 million).

- Recoverable value of intangible oil and gas assets: The Group determines at each statement of financial position date whether there is any evidence of impairment in the carrying value of its intangible oil and gas assets. This requires management to estimate the recoverable value of its intangible oil and gas assets by reference to quoted market values, similar arms length transactions involving these assets etc. The carrying amount of intangibles assets at 31 December 2010 was USD 183 million (2009: USD 205 million).

- The Group carries its investment properties at fair value, with changes in fair values being recognised in the consolidated income statement. The Group engaged a firm of qualified independent property consultant to determine fair value reflecting market conditions as at 31 December 2010.

Notes to the Consolidated Financial Statements

At 31 December 2010

4 SEGMENTAL INFORMATION

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

Year ended 31 December 2010

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

4 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2009

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

Notes to the Consolidated Financial Statements

At 31 December 2010

5 NET REVENUE

	2010 USD mm	2009 USD mm
Gross sales	**483**	345
Less: Royalties	**(137)**	(111)
Net sales	**346**	234
Tariff fee	**4**	4
Net revenue	**350**	238

6 INVESTMENT AND FINANCE INCOME

	2010 USD mm	2009 USD mm
Profit share from bank deposits	**7**	9
Fair value gain on financial assets at fair value through profit or loss (note 17)	**1**	1
	8	10

7 OTHER INCOME

	2010 USD mm	2009 USD mm
Gain on sale of interest in Pearl Petroleum (note 25)	**-**	292
Gain on sale of interest in Komombo (note 25)	**-**	35
Others	**3**	4
	3	331

8 PROVISION FOR IMPAIRMENTS

	2010 USD mm	2009 USD mm
Provision for Impairment of:		
- oil & gas assets (note 12)	**5**	84
- inventory (note 15)	-	13
- doubtful debts (note 16)	-	19
	5	116

9 FINANCE COSTS

	2010 USD mm	2009 USD mm
Finance cost on convertible bonds (note 21)	**85**	83
Finance cost capitalised	**(29)**	(28)
	56	55

10 EARNINGS PER SHARE

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

	2010	2009
Earnings:		
Net Profit for the period- USD mm	**43**	24
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	**6,600**	6,600
EPS (Basic) – USD:	**0.006**	0.004

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

	2010	2009
Earnings:		
Net Profit for the period- USD mm	**43**	24
Finance cost on convertible sukuk	**75**	75
	118	99
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	**6,600**	6,600
Adjustments for:		
Assumed conversion of convertible Sukuk (million)*	**1,908**	1,908
Share options / Restricted shares (million)**	**7**	-
Weighted average number of ordinary shares for diluted earnings per share (million)	**8,515**	8,508

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

*As disclosed in Note 21, on 7 July 2008, the conversion rate for the convertible sukuk was determined and has been fixed at 17,343.3 shares for every USD 10,000 Sukuk Certificate. The shareholders in the Annual General Meeting on 21 April 2010 approved the issuance of 10% bonus shares, due to which the conversion exchange ratio was reset from 17,343.3 shares to 19,076.6 shares for every USD 10,000 Sukuk Certificate. As at 31 December 2010 the conversion had an anti-dilutive effect on the EPS of the Company.

**As at 31 December 2010 all the stock options issued to employees were out of money, hence no shares have been assumed for calculating diluted earnings per share. During the year key management employees were awarded with restricted shares which will be vested over a period of 3 years. These restricted shares have been taken into account in the calculation of diluted earnings per share.

Notes to the Consolidated Financial Statements

At 31 December 2010

11 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Building	Oil & gas properties	Plant & Equip-ment	Other assets	Pipeline & related facilities	Capital work-in-progress	Total
	USD mm	USD mm	USD mm	USD mm	USD mm	USD mm	USD mm	USD mm
Cost:								
At 1 January 2010	**13**	**1**	**494**	**93**	**16**	**25**	**529**	**1,171**
Additions	**-**	**-**	**74**	**3**	**2**	**-**	**89**	**168**
Transfer from Intangible assets (note 12)	**-**	**-**	**53**	**-**	**-**	**-**	**-**	**53**
Transfer from Capital work-in-progress.	**-**	**-**	**-**	**-**	**-**	**54**	**(54)**	**-**
Dry hole costs written-off	**-**	**-**	**(13)**	**-**	**-**	**-**	**-**	**(13)**
At 31 December 2010	**13**	**1**	**608**	**96**	**18**	**79**	**564**	**1,379**
Depreciation/Depletion:								
At 1 January 2010	**-**	**-**	**206**	**16**	**6**	**2**	**-**	**230**
Depreciation/depletion charge for the year	**-**	**-**	**93**	**6**	**1**	**4**	**-**	**104**
At 31 December 2010	**-**	**-**	**299**	**22**	**7**	**6**	**-**	**334**
Net carrying amount:								
At 31 December 2010	**13**	**1**	**309**	**74**	**11**	**73**	**564**	**1,045**

Capital Work in Progress comprises:

	USD mm
SajGas Plant and facilities	**126**
UGTC Pipeline & Related facilities	**91**
Kurdistan Region of Iraq Project	**309**
Dana Gas Egypt	**15**
EBGDCO	**14**
Others	**9**
	564

11 PROPERTY, PLANT AND EQUIPMENT (continued)

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

Capital Work in Progress comprises:

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

Notes to the Consolidated Financial Statements

At 31 December 2010

12 INTANGIBLE ASSETS

	Oil & gas interests	*Purchase, transmission, sweetening & sale rights*	*Gas processing rights*	*Development cost*	*Goodwill*	*Total*
	USD mm	*USD mm*	*USD mm*	*USD mm*	*USD mm*	*USD mm*
Cost at 1 January 2010	289	857	7	2	308	1,463
Less: Provision for impairment (note 8)	(84)	-	-	-	-	(84)
At 1 January	205	857	7	2	308	1,379
Additions	34	-	-	-	-	34
Transfer to Property, Plant and Equipment.	(53)	-	-	-	-	(53)
Provision for impairment (note 8)	(3)	-	-	(2)	-	(5)
At 31 December 2010	**183**	**857**	**7**	**-**	**308**	**1,355**
At 31 December 2009	205	857	7	2	308	1,379

(a) Oil and Gas Interests
Oil and gas interests of USD 183 million relates to Dana Gas Egypt which is the Upstream (Exploration and Production) Division of the Dana Gas Group. Dana Gas Egypt has a number of concessions and development leases in Egypt which are described below in more detail:

- El Wastani Development Lease – This development lease is held with a 100% working interest and represents approximately 34% of current production in Egypt. El Wastani production includes both gas and associated gas liquids. This lease has 13,017 acres of land included within their boundaries and is located in the Nile Delta of Egypt.

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

- West El Manzala Exploration Concession – Dana Gas Egypt holds a 100% working interest in this Concession, which includes 476,216 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land is 30 June 2012. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt. To date, nine development leases have been created from this exploration concession after adding the recently granted West Manzala Area 1 and produce approximately 58% of Egypt current volumes and produce both natural gas and associated liquids. The Company has applied for a tenth development lease to cover the recently discovered South Abu El Naga field.

- West El Qantara Exploration Concession – Dana Gas Egypt holds a 100% working interest in this Concession, which includes 319,618 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land is 30 June 2012. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt and two development leases have been granted to date. Only one is producing yet (Sama) and contributes to approximately 7% of Egypt current volumes.

- Kom Ombo Exploration Concession – Dana Gas Egypt holds a 50% working interest in this Concession, which includes 5,654,727 acres of exploration land with the balance of 50% interest held by Sea Dragon Energy Limited ("Sea Dragon"). To date one development lease has been created from this exploration concession and produces approximately 1% of Egypt current volumes and produces only oil.

12 INTANGIBLE ASSETS (continued)

(a) Oil and Gas Interests (continued)
In addition to the above Dana Gas has the following interests which were acquired as part of Centurion acquisition:

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

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

Management has carried out a review of each of the oil and gas interests in 2010 and believes that no change in impairment provision of USD 84 million pertaining to JDZ Block-4, Tunisia and Komombo is required.

(b) Purchase, transmission, sweetening and sale rights
Intangible assets include USD 857 million which represent the fair value of the rights for the purchase, transmission, sweetening and sale of gas and related products acquired by the Company through its shareholdings in SajGas, UGTC and CNGCL. The fair value of the rights acquired in 2005 was determined by reference to valuation exercises undertaken by professionally qualified independent third parties based on the expected future cash flows arising from the underlying contractual relationships. The intangible assets will be amortised over 25 years from the date of commencement of commercial activity in accordance with the terms of the contracts to which they relate. Commercial activity has not yet commenced. The ultimate supplier of gas, NIOC, has after a delay of over 4 years completed the installation of all the main components of the required upstream facilities in Iran. Crescent Petroleum, which has the gas supply contract with NIOC, announced that it has taken NIOC to international arbitration pursuant to its contract, in response to demands for performance by customers in the UAE given the four years of delays in delivery of the contractual quantities of natural gas by NIOC. Based on the information available at this time, the Directors and management are confident of a positive outcome.

In accordance with IAS 36 requirement relating to intangible assets not yet available for use, management had undertaken an impairment review of the intangible assets as at 31 December 2010. Management understands that progress has been made on the construction of the required facilities by the ultimate gas supplier and has reviewed the various inputs into the original valuation model. Management believes that the inputs into the original valuation model have not significantly changed.

Key assumptions used in value in use calculations

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

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

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

Oil prices: management has used an oil price assumption based on the forward curve prevailing at the end of 2010 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.

Notes to the Consolidated Financial Statements

At 31 December 2010

12 INTANGIBLE ASSETS (continued)

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

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

(c) Goodwill
Goodwill of USD 308 million relates to the acquisition of Dana Gas Egypt (previously known as Centurion) in January 2007 which enabled Dana Gas to acquire the upstream business qualification and therefore the rights to develop the gas fields in the Kurdistan region of Iraq. The recoverable amount of the above cash generating unit has been determined based on value in use calculation using cash flow projections approved by senior management up to a 20 year period or the economic limit of the producing field. The pre-tax discount rate applied to cash flow projections is 10% (2009: 10%). Cash flows are generated using forecasted production, capital and operating cost data over the expected life of each accumulation.

13 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2010	*2009*
	USD mm	*USD mm*
At 1 January	**283**	-
Additions	**-**	182
Change in fair value	**32**	101
At 31 December	**315**	283

The Group holds 3,161,116 ordinary shares in MOL (note 25) received as consideration for the disposal of an interest in Pearl Petroleum in 2009. These shares are listed on the Budapest Stock Exchange and have been fair valued with reference to published price quotation at 31 December 2010.

14 INVESTMENT PROPERTY

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

	2010	*2009*
	USD mm	*USD mm*
Balance at 1 January	**39**	110
Change in fair value	**(2)**	(71)
Balance at 31 December	**37**	39

Investment property consists of industrial land owned by SajGas, a subsidiary, in the Sajaa area of the Emirate of Sharjah, United Arab Emirates. The Group considers a portion of land to be surplus to their operational requirements and will be used for earning rentals or held for capital appreciation.

Investment properties are stated at fair value which has been determined based on a valuation performed by an independent firm of qualified property consultants, with reference to comparable market transactions. This valuation reflects the decline in property values generally and has therefore resulted in a decrease in the fair value by USD 2 million (31 December 2009: decrease of USD 71 million) which was charged to the consolidated income statement.

15 INVENTORIES

	2010	*2009*
	USD mm	*USD mm*
Spares and consumables	**64**	59
Less: Provision for impairment of inventory (note 8)	**(13)**	(13)
	51	46

16 TRADE AND OTHER RECEIVABLES

	2010	*2009*
	USD mm	*USD mm*
Trade receivables	**218**	135
Prepaid expenses	**1**	1
Other receivables	**45**	82
Less: Provision for impairment of other receivables (note 8)	**(9)**	(19)
	255	199

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:

		Neither past due nor impaired	***Past due but not impaired***				
	Total		*<30 days*	*30-60 days*	*60-90 days*	*90-120 days*	*>120 days*
	USD mm	*USD mm*	*USD mm*	*USD mm*	*USD mm*	*USD mm*	*USD mm*
2010	**218**	**69**	**17**	**7**	**9**	**13**	**103**
2009	135	48	12	12	11	11	41

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010	*2009*
	USD mm	*USD mm*
Balance at 1 January	**9**	8
Change in fair value	**1**	1
Balance at 31 December	**10**	9

Notes to the Consolidated Financial Statements

At 31 December 2010

18 CASH AND CASH EQUIVALENTS

	2010 USD mm	2009 USD mm
Cash at bank and on hand		
- Local Banks within UAE	**17**	20
- Foreign Banks outside UAE	**9**	8
Short term deposits		
Local Banks within UAE	**133**	182
Cash in transit	**-**	3
	159	213

Cash at bank earns profit at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one week and three months, depending on the immediate cash requirements of the Group, and earns profit at the respective short-term deposit rates. The fair value of cash and short-term deposits is USD 159 million (2009: USD 213 million). The effective profit rate earned on short term deposits ranged between 2.5% to 6.1% (2009: between 2.5% and 6.1%) per annum. As at 31 December 2010, 94% of cash and cash equivalents were held with UAE banks.

19 SHARE CAPITAL

	2010 USD mm	2009 USD mm
Authorised:		
8,394,000,000 common shares of AED 1 each (USD 0.2728 each)		
Issued and fully paid up:		
6,600,000,000 common shares of AED 1 each (USD 0.2728 each)	**1,801**	1,637

At the Annual General Meeting held on 21 April 2010, the shareholders approved a 10% bonus issue amounting to USD 164 million (AED 600 million). Consequently the Company's paid up share capital has increased to AED 6.6 billion comprising of 6.6 billion shares of AED 1 each (2009: 6 billion shares of AED 1 each).

20 OTHER RESERVES

	Share option USD mm	Fair value reserve USD mm	Total USD mm
At 1 January 2009	4	-	4
Value of employee services (note 27)	2	-	2
Change in fair value of available-for-sale financial assets (note 13)	-	101	101
At 31 December 2009	**6**	**101**	**107**
Value of employee services (note 27)	**3**	**-**	**3**
Change in fair value of available-for-sale financial assets (note 13)	**-**	**32**	**32**
At 31 December 2010	**9**	**133**	**142**

21 BORROWINGS

	2010 USD mm	2009 USD mm
Convertible bonds	**887**	871
Bank borrowings	**10**	-
At 31 December	**897**	871

a) Convertible bonds

In October 2007, the Group issued convertible bonds in the form of Trust Certificates / Sukuk-al-Mudarabah ("the Sukuk") for a total value of USD 1 billion. The Sukuk, which is structured to conform to the principles of Islamic Shariah, was approved by the Company's shareholders at an Extraordinary General Meeting held in July 2007. The Sukuk matures in 2012 and has a fixed profit rate of 7.5% to be paid quarterly. The reference share price for conversion, based on the terms and conditions of the Sukuk issue, was determined on 7 July 2008. The exchange ratio has been set at 17,343.4 shares for every USD 10,000 Sukuk certificate (i.e. an effective conversion price of AED 2.118 per share). Each Trust Certificate may be redeemed at the option of the holder at any time after 7 July 2008 to the maturity date. It may be converted into shares, or at the option of Dana Gas, into the equivalent sum of money based on the prevailing share price at conversion. Dana Gas may also voluntarily redeem the Trust Certificates under certain conditions. In 2008, Dana Gas repurchased convertible sukuk with a nominal value of USD 80 million. At the Annual General Meeting held on 21 April 2010, the shareholders approved a 10% bonus issue and consequently conversion ratio for Sukuk was increased from 17,343.3 shares to 19,076.7 shares for every USD 10,000 Sukuk certificate.

The Sukuk is secured by way of a pledge over the shares of Dana Gas LNG Ventures Ltd., SajGas and UGTC in accordance with the principles of Islamic Shariah.

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

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

	2010 USD mm	2009 USD mm
Liability component as at 1 January	**871**	856
Finance cost (note 9)	**85**	83
Profit paid	**(58)**	(57)
	898	882
Current portion of profit classified under trade and other payable (note 23)	**(11)**	(11)
Liability component at 31 December	**887**	871

(b) Bank borrowings

On 22 April 2010, EBGDCO (Joint Venture Company) entered into a facility agreement with Commercial International Bank (Egypt) S.A.E. "CIB" for the financing of 70% (USD 66.5 Million) of the investment cost of the company's project comprising establishment of Gas Liquids extraction plant at Ras Shukeir. The facility matures in 12 years and carries variable rate of LIBOR + Margin during the repayment period. The first drawdown for the said facility was made in June 2010 and Danagaz W.L.L's share of the drawdown is approx USD 10 Million as at 31 December 2010.

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

Dana Gas PJSC has given an undertaking "not to dispose" of its equity stake in Danagaz WLL except to a qualified investor approved by CIB, Egypt and not create any lien/pledge of its equity stake in Danagaz WLL. This facility is non-recourse to Dana Gas PJSC.

Notes to the Consolidated Financial Statements

At 31 December 2010

22 PROVISIONS

	2010 USD mm	2009 USD mm
Asset decommissioning obligation	**15**	12
Employee's end of service benefits	**2**	2
	17	14

23 TRADE PAYABLES AND ACCRUALS

	2010 USD mm	2009 USD mm
Trade payables	**67**	63
Accrued expenses and other payables	**62**	53
Profit accrued on convertible bonds (note 21)	**11**	11
	140	127

24 INTEREST IN JOINT VENTURE

(a) Kurdistan Region of Iraq Project

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

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

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

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

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

24 INTEREST IN JOINT VENTURE (continued)

(a) Kurdistan Region of Iraq Project (continued)

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

	2010 USD mm	2009 USD mm
Assets:		
Long-term assets	**363**	306
Current assets	**137**	63
Total Assets	**500**	369
Liabilities:		
Long-term liabilities	**-**	-
Current liabilities	**23**	31
Total Liabilities	**23**	31
Net Assets	**477**	338
Income	**82**	42
Operating Cost	**(6)**	(5)
Gross Profit	**76**	37

(b) UGTC / Emarat Joint Venture

The Group has a 50% interest in UGTC / Emarat unincorporated Joint Venture which has developed the largest gas pipeline in the UAE (48 inch diameter) with a design capacity of 1000 MMscfpd, 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:

	2010 USD mm	2009 USD mm
Assets:		
Long-term assets	**23**	24
Current assets	**8**	5
Total Assets	**31**	29
Liabilities:		
Long-term liabilities	**-**	-
Current liabilities	**-**	-
Total Liabilities	**-**	-
Net Assets	**31**	29
Income	**4**	4
Operating cost	**(2)**	(2)
Profit	**2**	2

24 INTEREST IN JOINT VENTURE (continued)

(c) EBGDCO:
The Group's subsidiary Danagaz WLL has a 40% equity interest in Joint Venture Company EBGDCO to build, own and operate a Gas liquids extraction plant in Egypt in partnership with Egyptian Natural Gas Company (EGAS) and Arab Petroleum Investments Corporation (APICORP). The following amounts represent the Group's subsidiary interest in the assets and liabilities of the joint venture:

	2010 USD mm	2009 USD mm
Assets:		
Long-term assets	**14**	4
Current assets	**6**	6
Total Assets	**20**	10
Liabilities:		
Long-term liabilities	**10**	-
Current liabilities	**1**	-
Total Liabilities	**11**	-
Net Assets	**9**	10

25 DISPOSAL OF INTERESTS

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

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

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

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

(b) Komombo Concession Farmout
In December 2009, Dana Gas Egypt entered into a settlement agreement with KIOEC for reassignment of their 50% interest in the Komombo Concession in Southern Egypt to Dana Gas Egypt. Following completion of this settlement agreement, Dana Gas Egypt farmed out the 50% interest in the Komombo Concession to Sea Dragon on 31 December 2009. Dana Gas Egypt and Sea Dragon are joint operators of this concession. The Group recorded a net gain of USD 35 million.

26 CONTINGENCIES AND COMMITMENTS

(a) Dana Gas Egypt
Dana Gas Egypt has two drilling rigs under contract and in the event that Dana Gas Egypt does not proceed with planned drilling with these rigs, it would be obligated to pay the rig operators a variable rate based on days not utlised under the contracts. The remaining commitment at 31 December 2010 was USD 4.4 million.

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

(b) Nigeria / Sao Tome
In 2006, Centurion signed a Production Sharing Contract ("PSC") and formal granting by the Joint Development Authority of its 10 percent (gross) equity interest, 9.5 percent (net) in Block- 4 of the Nigeria/Sao Tome. This was later assigned to Dana Gas PJSC in 2009. Dana Gas and another partner have withdrawn from the Concession in accordance with the relevant agreements (PSC/JOA) due to operator's decision to drill a third well without approval. The operator has disputed this position.

(c) Pearl Petroleum Company Limited
Dana Gas has incurred over USD 350 million in expenditure to date and commitments, not yet accrued, amount to approximately USD 1 million (40% share) for the development project in the Kurdistan Region of Iraq.

(d) EBGDCO
EBGDCO, through its banker, CIB, has issued a letter of credit to a supplier. Against this LC an amount of USD 14 million (DG Share USD 4 million) is outstanding as on 31 December 2010.

27 SHARE BASED PAYMENT

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

Pioneer Grant – Share Option Plan

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

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

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

The weighted average fair value of options granted in 2009 was determined using the Black-Scholes valuation model - AED 0.62 per option (2008: AED 1.09). The significant inputs into the model were average share price of AED 1.1 (2008: AED 2.04), expected option life of 8 years and an annual risk-free interest rate of 3.37% (2008: 4.62%). The volatility measured at the standard deviation of continuously compounded share returns was based on statistical analysis of daily share prices over the last 3 ½ years.

Notes to the Consolidated Financial Statements

At 31 December 2010

27 SHARE BASED PAYMENT (continued)

Restricted Shares

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

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

	2010	*2009*
	USD mm	*USD mm*
Expense arising from share-based payment transactions	**3**	2
	3	2

28 RELATED PARTY TRANSACTIONS

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

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

	2010		*2009*	
	Revenues	***Fees for management services***	*Revenues*	*Fees for management services*
	USD mm	***USD mm***	*USD mm*	*USD mm*
Joint ventures	**1**	**-**	1	-
Major shareholders	**-**	**-**	-	1
	1	**-**	1	1

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 members of key management during the year was as follows:

	2010	2009
	USD mm	USD mm
Short-term benefits	**7**	8
Stock options	**2**	2
	9	10

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

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

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

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

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

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

(c) Price Risk
The Group is exposed to equity securities price risk because of investments held by the Group and classified as available-for-sale. The Group's investment in equity of other entities that are publicly traded is listed on Budapest Stock exchange. At 31 December 2010, if the equity price had increased/decreased by 10% with all other variables held constant the Group's comprehensive income for the year would have been USD 32 million higher/lower.

The Group is also exposed to commodity price risk (crude oil price), however this has been partially mitigated due to fixed pricing agreement in Egypt for sale of natural gas which constitute approximately 44% of the Groups revenue. At 31 December 2010, if the average price of crude oil had increased/decreased by 10% with all other variable held constant the Group's comprehensive income for the year would have been USD 17 million higher/lower.

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

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

Cash deposits
Credit risk from balances with banks and financial institutions is managed by Group's Treasury in accordance with the Group policy. Investment of surplus funds is made only with counterparties approved by the Group's Board of Directors. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2010 and 2009 is the carrying amount as illustrated in note 18.

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

Notes to the Consolidated Financial Statements

At 31 December 2010

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk factors (continued)

(e) Liquidity risk (continued)

Year ended 31 December 2010	***On demand USD mm***	***Less than 3 months USD mm***	***3 to 12 months USD mm***	***1 to 5 years USD mm***	***>5 years USD mm***	***Total USD mm***
Convertible bonds	**-**	**6**	**63**	**978**	**-**	**1,047**
Trade and other payables	**-**	**140**	**-**	**-**	**-**	**140**
Provisions	**-**	**-**	**-**	**8**	**21**	**29**
	-	**146**	**63**	**986**	**21**	**1,216**

Year ended 31 December 2009	*On demand USD mm*	*Less than 3 months USD mm*	*3 to 12 months USD mm*	*1 to 5 years USD mm*	*>5 years USD mm*	*Total USD mm*
Convertible bonds	-	6	63	1,041	-	1,110
Trade and other payables	-	127	-	-	-	127
Provisions	-	-	-	8	19	27
	-	133	63	1,049	19	1,264

Capital risk management

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2010 and the period ended 31 December 2009. Capital comprises share capital, retained earnings, other reserves and equity component of convertible bonds, and is measured at USD 2,103 million as at 31 December 2010 (2009: USD 2,035 million).

30 FAIR VALUE ESTIMATION

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

	Carrying amount 2010 USD mm	***Fair value 2010 USD mm***	*Carrying amount 2009 USD mm*	*Fair value 2009 USD mm*
Financial assets				
Cash and short term deposits	**159**	**159**	213	213
Financial liabilities				
Bank Borrowings	**897**	**897**	871	871

30 FAIR VALUE ESTIMATION (continued)

The fair value of bank borrowings is the amortised cost determined as the present value of discounted future cash flows using the effective interest rate. The Group considers that the carrying amounts of trade and other receivables, trade and other payables, other current and non-current financial assets and liabilities also approximate their fair values.

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

At 31 December 2010

31 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans & receivables	Assets at fair value through profit and loss	Available-for-sale	Total
	USD mm	USD mm	USD mm	USD mm
31 December 2010				
Assets as per statement of financial position				
Available-for-sale financial assets	**-**	**-**	**315**	**315**
Trade and other receivables excluding pre-payments	**254**	**-**	**-**	**254**
Financial assets at fair value through profit or loss	**-**	**10**	**-**	**10**
Cash and cash equivalents	**159**	**-**	**-**	**159**
Total	**413**	**10**	**315**	**738**

	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	USD mm	USD mm	USD mm	USD mm
31 December 2010				
Liabilities as per statement of financial position				
Borrowings	**-**	**-**	**897**	**897**
Provisions	**-**	**-**	**17**	**17**
Trade and other payable excluding statutory liabilities	**140**	**-**	**-**	**140**
Total	**140**	**-**	**914**	**1,054**

31 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Loans & receivables	Assets at fair value through profit and loss	Available-for-sale	Total
	USD mm	USD mm	USD mm	USD mm
31 December 2009				
Assets as per statement of financial position				
Available-for-sale financial assets	-	-	283	283
Trade and other receivables excluding pre-payments	198	-	-	198
Financial assets at fair value through profit or loss	-	9	-	9
Cash and cash equivalents	213	-	-	213
Total	411	9	283	703

	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	USD mm	USD mm	USD mm	USD mm
31 December 2009				
Liabilities as per statement of financial position				
Borrowings	-	-	871	871
Provisions	-	-	14	14
Trade and other payable excluding statutory liabilities	127	-	-	127
Total	127	-	885	1,012

design and production by
WilsonGriffin
www.wilsongriffin.com

Dana Gas PJSC
P.O. Box 2011
Sharjah
United Arab Emirates

T: +971 6 556 9444
www.danagas.com