دانة غاز
DANAGAS

Annual Report 2011

Consolidating
our Footprint

Annual Report and Accounts 2011

Consolidating our Footprint

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 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 and environmentally friendly workplace for our employees and business partners, and to minimize the adverse effects of our operations on communities and the environment.

دانة غاز
DANAGAS

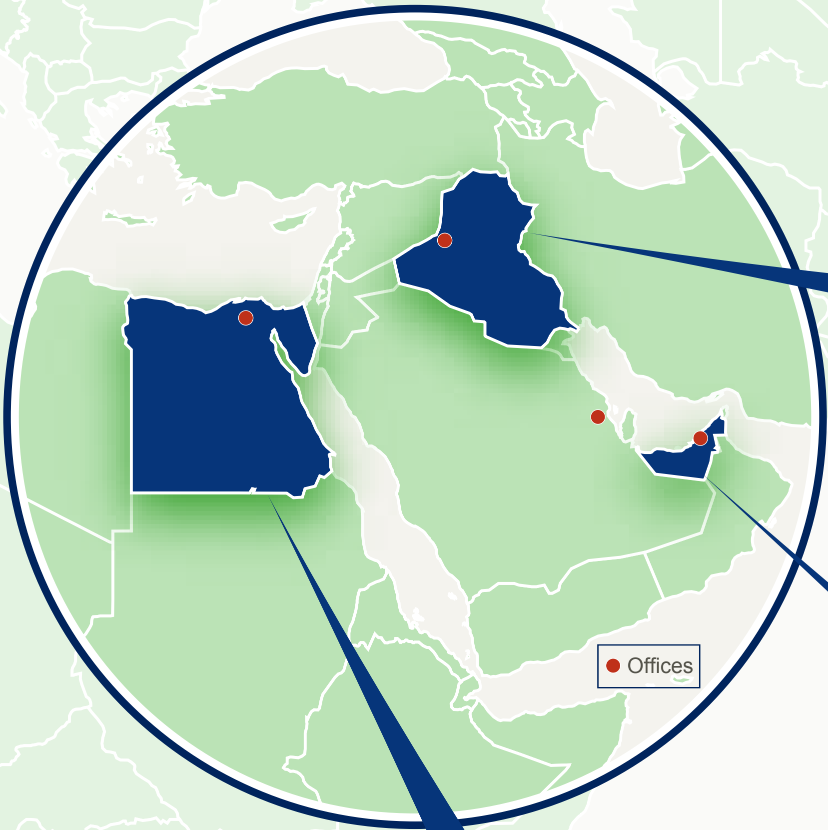
Contents

Glossary

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

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 is 100% operator of two Exploration Concessions and produces from eleven fields in the Nile Delta and it is 50% joint operator of one Exploration Concession and produces from one field in Upper Egypt. During 2011, the Company produced 77.67 Bcf of gas and 2.6 MMb of liquids, for an average rate of 42.5 kboepd. The focus for 2012 will be to increase the throughput of our El Wastani plant to 200 MMscfpd and to improve our LPG recovery efficiency to around 98%.

EBGDCo

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 2012.

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 2011 produced gas at a gross rate of 265 MMscfpd, condensate at a gross rate of 12,415 bpd and LPG at a gross rate of 203 Tpd, the gas being supplied to two power stations in the region. During 2011 the two LPG trains were commissioned, with the first one starting LPG production in January and the second one in June.

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

Sharjah Offshore Concession

In the UAE Dana Gas is the 100% operator of the Sharjah Offshore Concession. During 2012 the company will continue with the development of the Zora Field, which straddles Sharjah and Ajman waters. Target production from the field is 50 to 60 MMscfpd.

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 the largest gas pipeline in the UAE (48inch diameter), with a capacity of 1000 MMscfpd to transport gas in Sharjah.

Group 2011 Highlights

Operational

Safety

5.1 million man hours worked with a more than 60% reduction in recordable incidents (compared to 2010). There is a focus on health, safety, security and the environment across the group.

Egypt

2 new fields were brought on stream in our Nile Delta Concessions.

Kurdistan Region of Iraq

In the Kurdistan Region of Iraq, Pearl Petroleum (owned 40% by Dana Gas) produced at full capacity supplying close to 300 MMscfpd of gas to power stations in the region. As a result this region enjoys the most reliable electricity supplies in Iraq.

Financial

Revenue

Strong growth in revenue due to 19% increase in production and higher hydrocarbon prices throughout 2011.

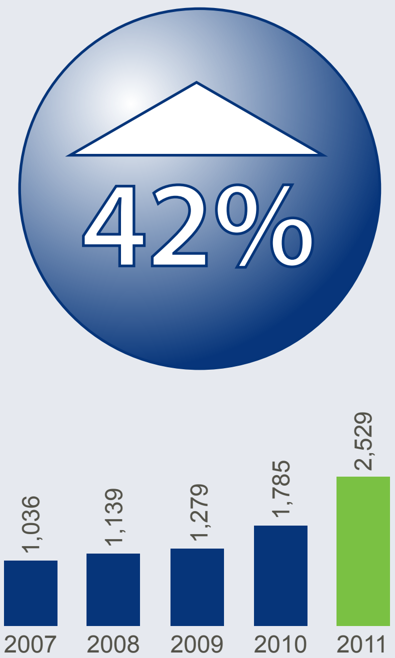
EBITDAX and Net Profit

Earnings before interest, tax, depreciation, amortization and exploration write off (EBITDAX) and Net Profit growth was aided by increase in production, higher realised prices and optimised cost management.

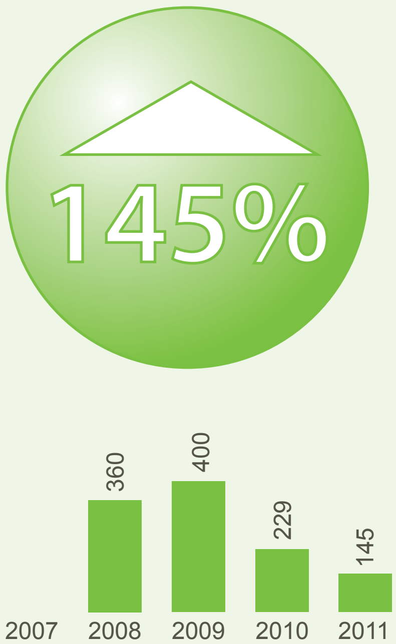
Operational Cash Flow

Operational cash flow remained lower than last year due to reduced collections from Egypt.

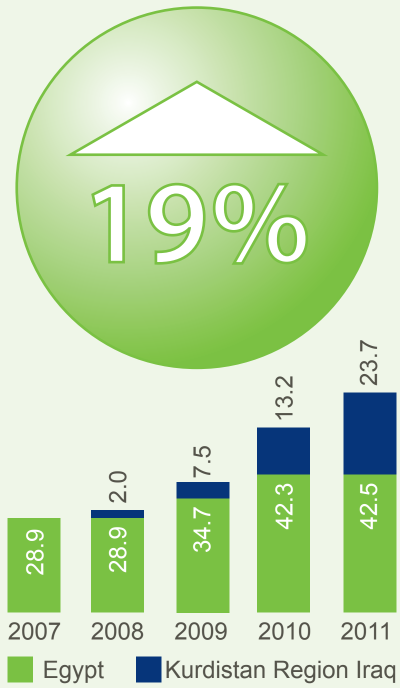
Revenue
(AED Million)



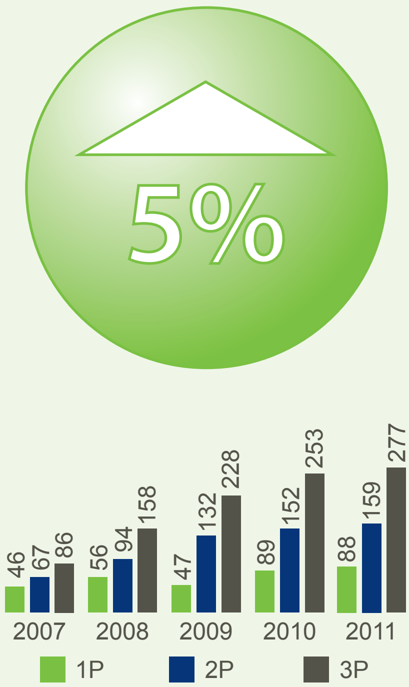
2P Reserves Replacement
(Percentage)



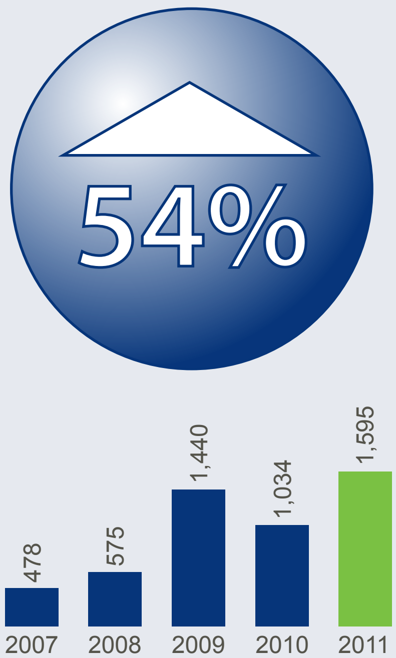
Production Growth
(kboepd)



2P Reserves
(Excluding Kurdistan Region of Iraq)
(MMboe)

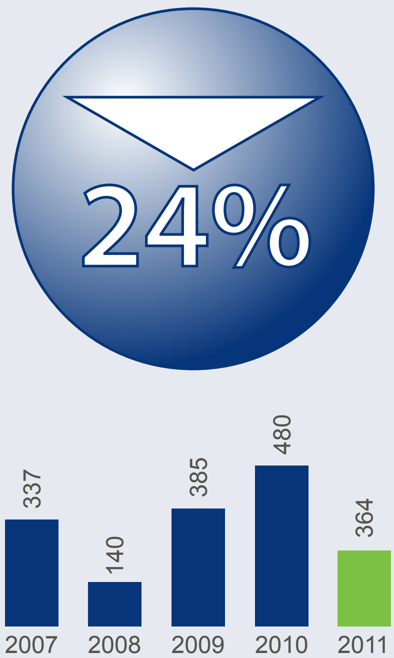


EBITDAX
(AED Million)



Net Profit
(AED Million)

Operational Cash Flow
(AED Million)



Group Structure

Diagram shows a simplified Group Structure

Chairman’s Statement

Chairman's Statement

2011 was a year of successful operational growth against a backdrop of regional turmoil.

For Dana Gas, 2011 was a year of successful operational growth against a backdrop of regional turmoil. The consequences of the so-called "Arab Spring" in countries which have been affected, are presenting business in general, and the oil and gas industry in particular, with some financial challenges in the short term, and Dana Gas has not been immune to these. That said, however, we enjoy very cordial and cooperative relationships with our host governments in Egypt and the Kurdistan Region of Iraq, and are confident in maintaining continuity of essential gas supplies while agreeing plans for payment of the considerable past overdue sums owing to us. In the meantime, collection of current sales are reasonably satisfactory.

During the year, the company achieved gross revenues of AED 2.53 billion, a 42% increase from 2010. This increase in revenue was due to higher production during the year coupled with higher international hydrocarbon prices. As a result, the company achieved a record gross profit of AED 1.33 billion, which was 71% higher than the AED 781 million achieved in 2010.

The latter part of the year was affected by the (still) deepening European financial crisis which has impacted credit ratings and the ability to raise funds, not only in Europe but worldwide. This external factor, combined with our outstanding receivables position, has had an unforeseen impact on Dana Gas' options regarding its sukuk maturing on 31st October 2012. Nevertheless, the company is confident in its ability to address the issue, and in achieving an optimum outcome for all stakeholders.

The fundamentals of our industry remain strong, with rising demand for energy in general and natural gas in particular, in our region and across the world. Our region will continue to be an important supply of energy and has also become a rapidly growing market as well, and Dana Gas has established itself as an important player and is making a positive contribution to that growth. The company has grown in production and profits and operational capabilities, while managing the risks caused by external factors in the region and in world financial markets.

I would also like to highlight the progress that Dana Gas continues to make in implementing a comprehensive global standard for risk management. During the year, a new Operational Risk Management System was developed and rolled out, together with a new Incident Tracking System.

Your Board of Directors maintains regular oversight of its functions through the Audit & Compliance Committee, working through the Management to ensure that appropriate strategies are in place effectively to mitigate the evolving risks with the objective of protecting the interests of all our stakeholders.

“ During 2011, Dana Gas achieved gross revenues of AED 2.53 billion, a 42% increase from 2010.

Hamid Dhiya Jafar
Chairman of the Board

Operations

While the social unrest and subsequent political changes in Egypt during the year have caused a significant deterioration in the company's receivables position, there was thankfully no significant disruption to our operations in the country. Accordingly, our average daily production was maintained at the same level as in 2010. With regard to the receivables situation, the first three months of 2012 have actually seen a considerable improvement in collections. Dana Gas has been working closely with the Egyptian authorities towards finding mutually acceptable solutions in order to allow the company to maintain an appropriate level of operational investment in the country.

In the Kurdistan Region of Iraq, we continue to deliver gas to the two major regional power stations, and with the completion and start-up of our two LPG processing trains, we are now in full operation, extracting the full range of liquid products from the produced gas. During 2011, collection of part of the overdue accounts receivables from the Kurdistan Regional Government (KRG) was achieved.

The UAE Gas Project continues to await the commencement of gas supplies by the National Iranian Oil Company (NIOC) to Crescent Petroleum. The Group has a 35% interest in Crescent National Gas Corporation Limited (CNGCL). In order to protect our and our customers' interests, Crescent Petroleum continues to seek a legal ruling on the 25 year gas supply contract with NIOC through international arbitration, and expects a decision by the tribunal during 2012.

Management

Our strong management team and staff, led by CEO Ahmed Al-Arbeed, continues its diligent work to optimise delivery of full value from our assets, and on behalf of the Board I would like to thank them for their hard work and for achieving another year of success.

Our Board of Directors has also worked tirelessly in 2011 on your behalf, our shareholders, and I would like to express our gratitude to each and every one of them for their efforts in guiding the Management throughout the year, including our Honorary Chairman, His Highness Shaikh Ahmed bin Sultan Al-Qasimi.

To our shareholders, I would like to express my and the rest of the Board's appreciation for the trust that you have placed in us.

Chief Executive Officer's Operational and Financial Review

Chief Executive Officer's Operational and Financial Review

We are proud of the Company's strong operational performance in 2011, particularly given the challenging environment.

We are proud of the Company's strong operational performance in 2011, particularly given the challenging political and economic environment. We have successfully continued to grow our production and our reserves, and we are progressing with the Company's expansion strategy for the long-term growth of our business in each of our key areas of operation.

Net production from the Company's interests in Egypt and the Kurdistan Region of Iraq for 2011 averaged 66,200 boepd, a year-on-year increase of 19%.

During 2011, in spite of political unrest, Dana Gas Egypt produced gas, condensate, LPG and crude oil at an average rate of just over 42,500 boepd, which is about the same rate for 2010. This plateau was sustained through production from six new wells which compensated for the natural decline in production from existing wells. A further expansion of capacity in our gas processing facilities in the Nile Delta will be considered in the context of our discussions with the Egyptian authorities aimed at maximizing collection of accounts receivable and, at the same time, increasing our capital investment in the Country.

In the Kurdistan Region of Iraq, the Company continued its remarkable production ramp-up, achieving an average rate of 23,700 boepd, an increase of more than 50% on 2010's production. The first train of the LPG plant was commissioned in January 2011 and the second in April 2011.

Regarding exploration activities, Dana Gas conducted a multi-well exploration and appraisal programme drilling 6 wells, with a 50% success rate. All of the wells were drilled in the Nile Delta concessions, with South Abu El Naga-2, Iris-1 and South Faraskur-3 adding new resources.

In Sharjah, we are moving ahead with the development of the Zora offshore field. Contracts have been awarded and the company continues to fast-track the full development of the field, which consists of two horizontal production wells, an offshore wellhead platform, 30 kilometre pipeline to shore, and a gas processing plant onshore in the Hamriyah Free Zone in Sharjah.

Dana Gas has delivered another year of strong financial performance. During 2011, revenue from the sale of hydrocarbons increased to AED 2.5 billion, with record gross profit of AED 1.3 billion representing increases of 42% and 71% respectively compared to last year. These results reflect the Company's continuous growth in Egypt and the Kurdistan Region of Iraq. Our operations are facing significant commercial and political challenges, but we remain unwavering in our determination to resolve these issues and to continue to contribute to the economic wellbeing of the regions where we operate.

Reserves

The Company's hydrocarbon reserves are evaluated independently by international petroleum consultants Gaffney Cline & Associates. In 2011, the Gross Proved plus Probable Reserves (2P) increased by around 5% to 159 MMboe. Dana Gas's Gross Reserves (in MMboe) as at 31 December 2011 are as follows:

Country	Concession	Proved (1P)	Proved plus Probable (2P)	Proved plus Probable plus Possible (3P)
Egypt	El Manzala	12.7	22.3	35.6
	West El Manzala	44.4	80.6	143.4
	West El Qantara	21.4	38.0	61.5
	Komombo	0.3	1.5	3.6
UAE	Sharjah Offshore	8.7	16.5	33.3
	Total	87.5	158.9	277.4

Business Development Review and Outlook

Dana Gas operates in the MENASA region where a major gas supply shortfall is developing. A leading E&P Company has recently reported that the Middle East region's gas demand is expected to grow disproportionately to all other fuels at a rate of 3.9% (CAGR) (to 2030) due to economic growth accompanied by industrialization, growth in the power sector and development of domestic resources. This is certainly good news for the region as well as our Company. Global gas demand is projected to continue on an upward trajectory and recent events including the Japan earthquake underpin this argument.

Dana Gas currently has a resource base large enough to support our growth ambitions in the coming years through organic growth, in addition to which we continue to seek opportunities to expand and diversify our portfolio within the MENASA region.

During 2011, we reviewed a number of business activities across the region, with specific opportunities in Algeria, Egypt, Oman, Bahrain and Syria. We placed some strong bids (some of which are still competing for success) and participated in various bid rounds across the region. Our aim is to build our asset base whilst keeping a close watch on our capital expenditures and financial exposure to ensure that we achieve maximum value for the shareholders.

The Company is on track to deliver on significant upside potential and poised to expand our footprint in Kurdistan. We have rigorous project screening procedures which facilitate investment decisions that allow us to focus on projects with high potential.

Management and Staff

I would like to thank our people for their vision, creativity and energy. They are truly a team of first-class professionals and represent one of the primary assets of Dana Gas. We will continue to build our team and seek to encourage them to develop to the full extent of their potential, to enable us to deliver all of our goals and objectives.

OPERATIONAL REVIEW

Egypt – Nile Delta

During the year, two successful appraisal and development wells were drilled in our Nile Delta acreage alongside a programme of working over production wells to increase or maintain production rates.

During 2012, we will increase the throughput of our El Wastani plant to 200 MMscfpd and will commence work to improve our LPG recovery efficiency to around 98%, thus adding an additional value stream. We will continue our work towards tying back our recent discoveries to this plant and the South Manzala gas plant, and development drilling will continue to optimise production across the developed fields. We also plan to continue the exploration drilling campaign of the past five years, to add to the resource base and to support further production increases.

Egypt – Upper Nile

In southern Egypt, Dana Gas is a 50% partner and joint operator of the Komombo Concession, where the first commercial oil production in the region has been established. Our partner is Sea Dragon Energy of Canada. During 2011, the company added 2 new production wells. During 2012, we plan to continue drilling both exploration and development wells.

Egypt – EBGDCo

The Company, through its subsidiary Danagaz Bahrain, is a 26.4% shareholder in the Egyptian Bahraini Gas Derivative Company to build, own and operate a Liquids Extraction Plant in Egypt in partnership with the Egyptian Natural Gas Holding Company (EGAS) and the Arab Petroleum Investments Corporation (APICORP). The contract for the liquids extraction plant was awarded in June 2009. Financing for this project is in place, construction of the facilities is almost complete and start up is planned to be achieved in the second quarter of 2012. The plant is designed to extract 130,000 tonnes per annum of LPG from a gas stream of 150 MMscfpd.

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 with 40%, OMV of Austria with 10% and MOL of Hungary with 10%.

Together with our partners, we produce gas from the Khor Mor Field and deliver it to power stations at Erbil and Bazian.

Both trains of the gas processing plant are now complete and we commenced LPG deliveries in January 2011. The plant has the designed capacity to deliver up to 300 MMscfpd of gas. Trials are underway to increase the throughput by simultaneous operation of the Early Production Facility and the LPG processing trains. The commencement of LPG sales has significantly increased our revenues, adding to the cash received from condensate sales. We continue to deliver contracted quantities of natural gas to the power stations free of charge and receive revenue from the sale of condensate and LPG extracted from the gas.

Raw gas production, net to Dana Gas' 40% interest, amounted to 39 Bcf plus 1.8 MMBbl of condensate and 29,693 tonnes of LPG, giving a total net production to Dana Gas of 8.6 MMboe. This was an increase of 79.3% on the cumulative production achieved during 2010.

Whilst our current focus remains on continuing production, our long term objective is to fully exploit the vast 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. We are confident that the Kurdistan Region of Iraq will become a major

gas producing province capable of exporting gas within the region and beyond. With our partners Crescent Petroleum, OMV and MOL, we are well positioned to make the most of these opportunities.

During 2011, cash collections from our liquid hydrocarbons sales improved considerably. Condensate and LPG has been partially delivered to private buyers, under the direction of the Kurdistan Regional Government, which has secured immediate cash payment for part of our production. In addition, transfer payments from the Iraqi Federal Government to the Kurdish Regional Government were also received.

UAE – Sharjah Offshore (Zora)

In March 2008, Dana Gas was awarded a twenty-five year oil and gas concession by the Government of Sharjah (UAE) for the exploration and development of the Western Offshore Concession. The concession award marked Dana Gas' entry into the GCC exploration and production sector and was also the first offshore upstream asset for the Company. The Concession Agreement covers a total area of over 1,000 square kilometers including part of the Zora Gas Field, which straddles the Sharjah-Ajman border and has established gas reserves and a ready market.

The project entails engineering, construction and installation of a new unmanned platform, together with two horizontal gas production wells in approximately 24 meters of water. These facilities will be tied, via a new 33 km, 12" gas and condensate pipeline, to the Sharjah Hamriyah Free Zone coast line, where a new onshore gas processing plant will be constructed.

In October 2011, the Company appointed Worley Parsons to provide management consultancy services for the project. Under their direction, invitations to tender for the main Engineering Procurement and Construction contracts are being prepared and issued. Bids have so far been received for the offshore wellhead platform, both the jacket and topsides, with the pipeline and gas processing plant to follow.

UAE – UAE Gas Project

The UAE Gas Project to process and transport imported gas continues to await the commencement of gas supplies by the National Iranian Oil Company ("NIOC") to Crescent Petroleum. Dana Gas has a 35% interest in Crescent National Gas Corporation Limited (CNGCL) and owns 100% of SajGas and UGTC. In July 2010, NIOC introduced gas into its completed transmission network and Dana Gas' UGTC pipeline and SajGas processing facilities in Sharjah for commissioning purposes. However, as the system was pressured up, NIOC discovered significant leaks in its offshore gas transmission system which it is now rectifying. Notwithstanding this, Crescent Petroleum is continuing with the international arbitration to seek a ruling on its binding 25-year gas supply contract with NIOC and expects an enforceable decision by the arbitral tribunal in 2012.

FINANCIAL REVIEW

Further Growth

The Group reported strong financial results in 2011 with net profit after tax increasing by 220% to AED 506 million and EBITDAX rising to AED 1.6 billion, a 54% increase over the last year. However, cash flow from operations declined due to lower collection of revenues in Egypt given the political unrest in 2011.

Key Financial Metrics

	2011 AED Million	2010 AED Million	% Change	Indicator
Sales Revenue	2,529	1,785	42	△
Gross Profit	1,335	781	71	△
Profit After Tax	506	158	220	△
Total Comprehensive Income	180	276	(35)	▽
EBITDAX	1,595	1,034	54	△
Cash From Operations	364	480	(24)	▽
Capital Expenditure	352	740	(52)	▽

Overall summary

2011 was an excellent year for the Group, as we reported a 42% increase in revenues (2010: 40% increase on 2009) backed by continued growth in production and higher hydrocarbon prices. The Group's gross profit increased by 71%, demonstrating our consistent ability to control operating costs with rising production. Net profit after tax increased to AED 506 million, a 220% year-on-year increase, as production increased and higher hydrocarbon prices were realised together with cost optimisations across the Group.

During the year, an amount of AED 364 million was generated from operations of the Group, a decrease of 24% on 2010, as collections in Egypt remained low compared to last year. The cash generated was spent on capital expenditures across the Group.

In 2011, the average realised prices for liquids witnessed an increase of 37%. This contributed the remaining AED 363 million of the increase in our gross revenues.

Gross Profit

The Group reported a record gross profit of AED 1.3 billion, an increase of 71% over the previous year. This increase reflects the Group's ongoing and growing operations in Kurdistan Region of Iraq, higher realised hydrocarbon prices and the impact of our continuous cost review and optimisation strategy.

Exploration Write Offs

In 2011, the Group conducted a six-well exploration and appraisal programme, with a 50% success rate. All of the wells were drilled in the Nile Delta concessions, with South Abu El Naga-2, Iris-1 and South Faraskur-3 adding new resources. The drilling costs of the three dry wells (Sanabel, Pluto and South Abu El Naga-3), amounting to AED 42 million, were written off during the year.

Comprehensive Income

The total comprehensive income for the year stood at AED 180 million compared to AED 276 million in 2010. The comprehensive income for 2011 includes an unrealised loss of AED 326 million on Dana Gas's 3% shareholding in MOL, the Hungarian-listed Oil and Gas Company and a key partner in Dana Gas's Kurdistan operations. MOL's share price declined by 16% and the HUF/US$ exchange rate declined by 12% in 2011. This loss is booked directly to equity in line with the Company's published accounting policy, resulting in Total Comprehensive Income for 2011 of AED 180 million.

Balance Sheet

Total assets at the year-end stood at AED 12.1 billion, an increase of 3% from last year's total assets of AED 11.8 billion. This increase was largely due to increase in

trade receivables and capital expenditure in Egypt and the Kurdistan Region of Iraq. Total net assets at year end amounted to AED 8.1 billion and the book value per share was AED 1.23 (2010: AED 1.2 per share).

Capital Investment

Capital investment in 2011 was AED 352 million, which results in a cumulative capital investment of approximately AED 2.3 billion in the last three years. In Egypt, the Group invested approximately AED 290 million and in Sharjah an amount of AED 44 million was spent on the Zora project. In the Kurdistan Region of Iraq, the Group's net capital expenditure was reduced to AED 7 million, as construction activities were completed and the LPG Plant was commissioned in 2011.

"Available for sale" financial assets

The Group holds 3,161,116 ordinary shares in MOL received as consideration for the disposal of an interest in Pearl Petroleum in May 2009. These shares are listed on the Budapest Stock Exchange and are being marked to market on the balance sheet date. During the year, the Group recorded an un-realized loss of AED 326 million, as compared to a gain of AED 118 million in 2010. This significant decline in the market value of MOL shares was due to the European financial crisis. During the current year the "Available for sale" financial asset has been reclassified under current assets in line with management's intention to realise its investment during 2012.

Trade receivables

The Group's trade receivables at the end of the year stood at AED 1.74 billion as compared to AED 799 million in 2010. This increase was partly due to the 42% increase achieved in Revenues and the remaining due to the slow rate of collections in Egypt. Receivables in Egypt constitute 48% of the total and the balance relates to receivables in Kurdistan. During 2011, the Group managed to collect a total of AED 649 million of which AED 275 million was collected in Egypt and AED 374 million in Kurdistan.

Cash from Operations

In 2011, our cash flow from operations decreased by 24% to AED 364 million from AED 480 million in 2010. This decrease was primarily due to the low level of collections in Egypt. The above reduction was partially mitigated by increased collections in the Kurdistan Region of Iraq where we collected an additional AED 340 million during 2011. We commenced the year with a cash balance of AED 583 million and ended the year with a balance of AED 411 million, a decrease of AED 172 million only. Our cash-management strategy has been to

manage our capital expenditures with our internal cash generation with the cash in hand principally being used for finance cost payments. We start 2012 with renewed plans to manage our liquidity with specific focus on receivable collections and seeking non-recourse funding for capital projects.

Capital Markets Relationship

Dana Gas recognises the importance of investor relations and capital market communications and addresses these globally from the headquarters in Sharjah. 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.

Financial Strategy

In 2011, Egyptian bank market conditions deteriorated in response to political events and uncertainty. However, we expect this to improve in 2012. We are already in discussions with local banks over receivables financing initiatives.

From a Global Capital markets perspective, 2011 has been a challenging year for markets globally on the back of European crisis and the resulting macro pressures. We expect the situation to improve in 2012.

In any case, it is important to stress that the Dana Gas story is backed by strong fundamentals, a valuable asset base and a strong management team with established relationships across the region.

We will continue to focus on value creation for shareholders through focused investment in our core assets and growth from new business development opportunities that meet our investment criteria.

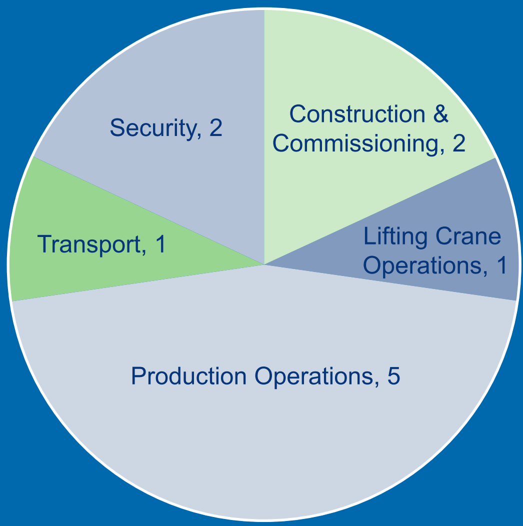
For 2012, we will continue to fund the investment requirements with internal cash flows and appropriate available third party financing.

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 the company is confident in its ability to address the matter successfully. On funding arrangements, we are working with financial institutions to provide funding on a limited recourse project finance basis for the development of the Sharjah Western Offshore project.

Health, Safety, Security and Environment

Health, Safety, Security and Environment

Injuries



Zero fatalities, a sixty percent reduction in recordable injuries and establishment of the Group Operating Risk Management System are some of the highlights of 2011 which will be discussed in this section of the annual report.

Following the issue of the Group HSSE Policy in 2010, the CEO of Dana Gas issued the Group Operating Risk Management System which sets out a systematic, structured and demonstrable basis for managing Health, Safety, Security and Environment (including asset integrity) risks and for driving continual performance improvement in Dana Gas. The system, which took lessons from other international operating companies as well from major industrial accidents, was rolled out across the company in 2011 in addition to the first eight Group Operating HSSE Standards covering matters such as Crisis Management and Business Continuity, Risk Management as well as Management of Change.

Performance

In 2011 we introduced a comprehensive scorecard for reporting of HSSE and Asset Integrity related data to the Group with the purpose of tracking, trending and intervention where required.

The accuracy of data provided increased significantly in 2011 with a significant focus by the CEO and Executive Leadership team on metrics that encouraged reporting and our ability to learn across the company. Reporting of Loss of Primary Containment, Safety Observations as well as High Potential Incidents and Recordable Illnesses was initiated in 2011.

In 2011 we achieved another full year with zero fatalities occurring as a result of our activities. Nine of our colleagues (six employees and three contractors) suffered 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 in Kurdistan. Both Kurdistan Region of Iraq and Egypt achieved more than 60% reductions in Recordable Injuries. At the end of 2011 we benchmarked favorably against the OGP worldwide end 2010 Total Recordable Injury Frequency of 0.34, however we still have some way to go to reach the Middle East regional benchmark of 0.20.

There were 12 high potential incidents in 2011, representing incidents that under slightly differing circumstances could have resulted in fatalities and/or a significant loss of facilities. These have been investigated and lessons shared across the company.

Process Safety

The integrity of our assets is measured by our ability to avoid releases of gases and liquids from our process facilities. In 2011 we initiated

Performance

Key Metrics	2011	2010	Benchmark	Comment
Fatalities	0	0		
Man hours worked	5.1mm	6.8mm		Contractors and employees
Recordable injury cases	9	24		OSHA definition
Recordable injury frequency	0.35	0.71	0.34	OGP worldwide 2010
High Potential Incidents	12	n/a		
Major road accidents	0	2		Dana Gas definition
Kilometers driven	11mm	11mm		OSHA definition

Data includes Kurdistan safety incidents, man hours and kilometers

the reporting of a metric called Loss of Primary Containment, which focused attention on releases from process plant and pipelines.

There were 148 incidents of loss of primary containment in 2011 across the Group; 123 of these being from a series of corrosion related pin-hole leaks on flow lines and pipelines in Egypt. A task force has been established to tackle this issue and we expect a significant reduction in releases in 2012.

Environment

There was only one reported significant release of hydrocarbon to the environment, which occurred in our Kurdistan Region of Iraq activities during the commissioning of a condensate pipeline where an estimated 190 barrels of condensate were spilled to a non sensitive environment. We remain committed to the continual reduction of our environmental impact.

Health

Our policy states that we are committed to the 'improvement in health, safety and environmental performance with the goal of zero accidents and harm to people and minimizing our environmental impact.' Harm to people means looking after their health as well as their safety. The reporting of illnesses was introduced in our 2011 Group reporting requirements. Pre-employment and in-service medical checks on our staff in our Khor Mor operation in the Kurdish region of Iraq were initiated in 2011 enabling us to deliver improvements to the health of this workforce. We will continue to request our operations to identify and report recordable illnesses in 2012 enabling us to learn about and improve the lives of our workforce.

Security

Security management is an integral part of our HSSE efforts and reporting of security incidents has also been introduced into our Group reporting requirements in 2011. There were 10 security incidents in our activities in 2011, 8% of these being in Kurdistan. We have a robust security management structure in the Kurdish Region of Iraq for the protection of our workforce and facilities where we work closely with the National Oil Field Police.

HSSE Risks

Throughout 2011 we continued to work on the themed risks shown in the 2010 Annual report, making steady progress as well as developing operation specific risks which we continue to address. More information on this can be seen overleaf

In 2012, we will continue with our focus on HSSE risk understanding, driving down our risk profile through the attention of the Senior Executives and downwards throughout the workforce.

HSSE Risks

Risk Theme	Controls put in place in 2011
Developing a consistent safety culture across the Group	The Group Operating Risk Management System was a large step forward in developing a consistent standard and tone with respect to Operating HSSE. We will continue to focus on improving compliance with this system through gap assessments and assurance steps throughout 2012.
Consistency in assessment of HSSE risks across the Group	Building on the issuing of the Risk Management Standard in 2010 and working closely with the Group Risk Function, the businesses are conducting regular risk reviews to identify operational risks and put controls in place. Quarterly reviews of business specific reviews are now conducted at Group level.
Project HSSE Assurance	In 2011 the Major Project Stage Gate process was developed which sets out how we achieve project assurance for HSSE integrity, as well as ensuring major projects meet the expectations of leadership. This process is being implemented on projects across the company with increasing rigour.
Ensuring we identify and manage major accident hazards	Follow up work on our Khor Mor facility in the Kurdish region of Iraq continues to address major accident related audit findings from December 2010 giving us increasingly higher confidence in the plant integrity. A follow up audit on the Khor Mor facility as well as audit of our Egypt facilities in 2012 will increase our knowledge and give us greater assurance of our capability to ensure that major accidents do not occur on our facilities.
Consistency in the HSSE Standards of Contractors	Contractor assurance activities have been a major focus for us in 2011, notably in our Egypt activity set where we have increased the size of our HSSE Team and our capability to be involved in contractor selection at the earliest phases of the contracting process. These lessons and others shall be enshrined in a Contractor HSSE Selection and Management Standard to be developed in 2012.

Risk Management

Managing Risk Responsibly

Overview

Within Dana Gas enterprise risk is actively managed to improve business performance and decision making through timely identification, evaluation and mitigation of the key risks and uncertainties facing the organisation. Risk management is a dynamic and critical business function to help achieve long-term shareholder value and protect our business, people, assets, capital and reputation.

Dana Gas' ability to deliver increasing shareholder value depends on the successful achievement of the Group's business objectives. In turn, this depends on identifying, assessing and managing risks across the business.

Dana Gas recognises that risk is an integral and unavoidable component of its business and consists of both threats to be managed and opportunities to be exploited. Managing exposure to risk and capitalizing on the opportunities presented will enable us to 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.

Board and Executive Level responsibility

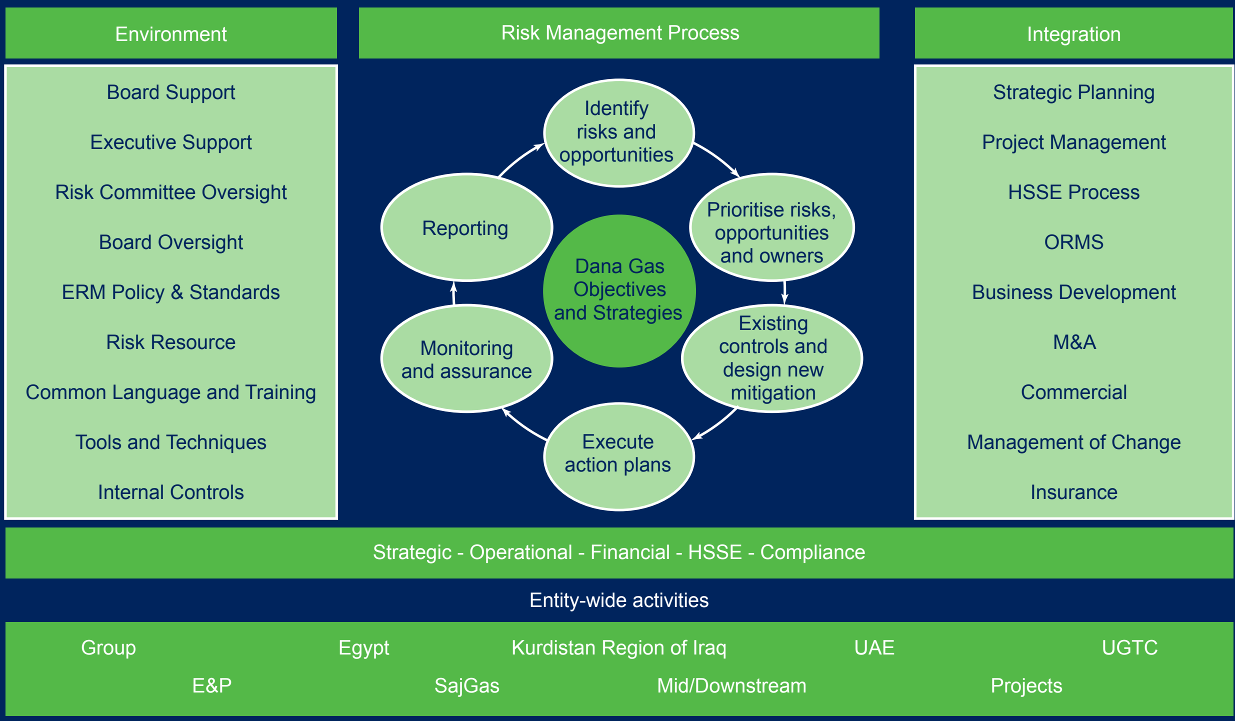
Risk management is a Board level responsibility and a fundamental part of good business practice. Dana Gas has formal risk management processes in place throughout the Group, with designated Director level responsibility for the key Group risks. In each area of risk, Executive Directors are supported by members of the senior management with group, business unit or in-country roles. Responsibility for actively identifying and managing risk is assigned to individual managers, who in turn hold each employee responsible for managing the risks specific to their role. We combine Board level awareness of risks with the assessment of specific risk exposures originating from and identified by the Group's country level and other business units.

Enterprise Risk Management Framework

Dana Gas has adopted industry best practice in risk management as a philosophy to protect the Group from business and HSSE risk, maximise opportunity and safeguard shareholder value. To achieve this, an Enterprise Risk Management Framework has been established to identify, evaluate and assist in the management of the risks faced by the Group. The process operates on a mandatory basis across the Group and provides the Board with assurance that the major risks faced by the Group have been identified and are regularly assessed, and that wherever possible, there are controls in place to eliminate, reduce or manage these risks.

The Risk Management Framework is an integral part of good management practice, reflecting the statutory requirements of the UAE and other international Corporate Governance Codes and is a mandatory internal control across the Dana Gas

Enterprise Risk Management Framework



Group. The Risk Framework consists of: Visibility and support from the Board & Management; a formal risk policy and standard; and best practice tools and techniques. It considers strategic, operational, financial and compliance risks and covers projects, assets, business units, countries and corporate functions. The framework includes a formal process that is designed to facilitate the systematic and continuous identification, analysis, mitigation, monitoring and reporting of those risks which could threaten the Group's ability to deliver its objectives. Risk assessments and evaluations are incorporated into key business processes, including strategy and business planning, business development, project management and HSSE management processes.

Risk Reporting and Oversight

The Dana Gas Board receives quarterly reports on the significant risks facing the business. At the management level, a Risk Committee was established in 2011, composed of key members of the Executive 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 meets once every two months and the key outputs are available to the Board and Senior Management.

Following the risk oversight processes makes it clear whether risks have been eliminated, mitigated or managed, or whether these measures are in progress, or the risk has increased to the point of requiring immediate attention. Risk reporting is co-ordinated by the Corporate Risk Manager.

Risk workshops are held annually to take a high level corporate view of the key risks facing the Dana Gas Group. These risks and the proposed mitigation strategies are submitted to the Board quarterly and included in the Annual Report and Accounts.

During 2011, great strides have been taken to adopt industry best practice to manage our exposure to risk. We adopted the Risk Management Framework, assessed enterprise risk at the Group Level, built country, local, asset-based and functional risk registers, and have begun the process of making the assessment and management of risk a natural and habitual part of all that we do. Managing risk effectively is a critical element of our corporate responsibility and underpins the safe delivery of our business plans and strategic objectives. It protects our reputation, supports our ability to do business and helps to create long-term competitive advantage. During 2012, the Enterprise Risk Management Policy and Framework will continue to be embedded throughout the organisation.

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's 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.

Receivables Risk

The business of the Company is affected by its ability to collect receivables in a timely manner. The challenging credit environment and political unrest in the Middle East witnessed in recent years has highlighted the importance of managing receivables risk. The Company is exposed to political and economic risks that exacerbate country risk and which may cause non-payment of obligations to the Company by governments or government-owned entities.

Oil and Gas Prices Risk

The Company's cash flows and profitability are sensitive to commodity prices for crude oil and other hydrocarbons. Crude oil prices have fluctuated widely in the past and are likely to be volatile in the future. Prices for oil are based on world supply and demand and a number of other factors including government regulation, exchange rate fluctuations, speculative activity and social and political conditions.

Operations

The Company's levels of production (and therefore revenues) are dependent on the continued operational performance of its producing assets. The Company's producing assets are subject to a number of operational issues including: reduced availability of those assets due to planned activities such as maintenance or shutdowns, unplanned outages, asset integrity and HSSE incidents and the performance of joint venture partners and contractors.

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 MENA region in which it does business. Specific country risks that could have an effect on Dana Gas's business include re-interpretation of existing tax laws, regional and governmental instability and intervention in licence awards, increased royalty payments and political obstacles to key project delivery.

Exploration

Dana Gas's future gas and oil production is highly dependent upon finding, acquiring and developing new reserves. In general, the rate of production from natural gas and oil reservoirs declines as reserves are depleted. The Group needs to replace these depleted reserves with new proved reserves cost-effectively and on a consistent basis. This could be affected by a number of factors including barriers to gaining new exploration acreage, funding constraints, inaccurate interpretation of geological and engineering data and disruptions to the successful implementation of the drilling programme.

Project Delivery

The Group's future gas and oil production is, to a significant extent, dependent upon successful completion of development projects within budgeted costs, time and technical requirements. The successful delivery of projects may be subject to availability of funding, sub-surface uncertainties, legal and regulatory compliance, availability and performance of suppliers, and availability of critical equipment and material.

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. These include: asset integrity failure (leading to a loss of containment of hydrocarbons and other hazardous materials), personal health and safety, natural disasters and breaches of security. Major accidents or incidents and/or the failure to manage these risks could result in injury or loss of life, damage to the environment, or loss of certain facilities with an associated loss or deferment of production and revenues.

Insurance

The transfer of risks to the insurance market may be affected and influenced by constraints on the availability of cover, market appetite and capacity, pricing and the decisions of regulatory authorities. Some of the major risks associated with the Group's activities cannot or may not be reasonably or economically insured.

Corporate Governance

Corporate Governance

Early Corporate Governance Vision

From the outset, Dana Gas has understood that the best corporate governance practices are fundamental to building a strong and successful 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 corporate governance practices within the company with a view to improve the efficiency and effectiveness of the Board of Directors by strengthening the control environment and ensuring that the disclosure and transparency practices of the company were consistent with 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 corporate governance in the realisation of continued growth and in defining appropriate strategic objectives and the business plans furthering such growth.

Dana Gas is committed to implementing the Ministerial Resolution No. (518) for the year 2009 related to Corporate Governance Regulations and Institutional Control Standards. Dana Gas amended its Articles of Association in 2011 to be in line with the requirements of the Ministerial Resolution (518) for the year 2009 relating to Corporate Governance Standards.

The Board of Directors and Executive Management implement 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.

The Company applies the principles prescribed in the Ministerial Resolution No. (518) for the year 2009 relating to Corporate Governance Regulations and Institutional Control Standards on several levels starting with the Executive Level where the Compliance Officer in the Legal Department, Board of Directors Under-Secretary and Internal Control Manager have to direct people and departments to commitment and adherence to the Corporate Governance Guidelines. At the level of Board of Directors, the Audit & Compliance Committee is committed to ensure the compliance with the applicable proper regulations of those systems. The Committee presents its Corporate Governance Report periodically to the Board of Directors.

Dealings in the Securities of the Company

The company has issued 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 Securities 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 ban periods defined in the Securities and Commodities Authority Resolution No. 2/2001.

The following table presents the dealings of Board of Directors and their relatives of first degree in the Securities of the Company during the year 2011; only one Board Member had exchange dealings during the year.

Board Member	Investor No.	Exchange Type	Amount	Date
Mr. Ziad Abdullah Ibrahim Galadari	UAE201000635003	Buying	7,000,000	11/08/2011
		Selling	4,572,270	14/09/2011
		Selling	127,730	15/09/2011
		Selling	4,000,000	28/11/2011

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 work on achieving the desired company growing value for the shareholders;
2. To establish the strategy and business plan;
3. To approve the annual budget and the allocation of resources;
4. To define investment priorities and approving business opportunities;
5. To supervise accuracy of financial results and reports and effectiveness of internal controls;
6. To establish accountability procedures with appropriate powers;
7. To assess 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. The tasks and responsibilities of the Chairman of the Board of Directors shall include without limitation:

1. To ensure the efficiency and timely performance and discussion of any and all main issues by the Board of Directors;
2. To be mainly responsible for drafting and approving the agenda of every meeting of the Board of Directors taking into consideration any matter proposed by the other Directors, this responsibility can be conferred by the Chairman to a Director or the Rapporteur of the Board of Directors;
3. To encourage all Directors to fully and efficiently participate in handling the affairs of the Board of Directors for ensuring that the Board of Directors is working in the best interests of the Company;
4. To take proper actions for ensuring efficient communication with Shareholders and communicating their opinions to the Board of Directors;
5. To allow efficient participation of the Non Executive Directors in particular and to promote constructive relations between Executive and Non Executive Directors.

Institution 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.

The Board includes independent members: 5 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

SN	Directors	Qualifications	Experience
1	Mr. Hamid Dhiya Jafar	Bachelor Degree in Engineering "Cambridge University" UK Post-graduate studies in Thermodynamics & Fluid Flow in 1967	Mr. Hamid Jafar is the Chairman for Dana Gas and Crescent Petroleum Group of companies. In addition, Mr. Jafar has a variety of other regional and international commercial interests including container shipping terminal operations, trucking, logistics, other industrial undertakings, private equity investments and real estate holdings.

2	Dr. Adel Khalid Al-Sabeeh	PhD in Mechanical Engineering “North Carolina State University” USA	Dr. Adel is the Chairman and Managing Director of National Industries Company (NIC) in Kuwait. Dr. Adel was the former Chairman of Kuwait Petroleum Company (KPC). He also held several ministerial posts like Ministry of Oil, Electricity and Water, Housing Affairs and Health. In addition, he held highly esteemed positions at Kuwait University as Vice President for Research.
3	H.H. Shaikh Sultan Bin Ahmed Al-Qasimi	B.Sc in Business Administration “Arkansas State University” USA Masters in Computer Information Systems “University of Detroit Mercy” USA	Shaikh Sultan is the Deputy Chairman of Sharjah Petroleum Council. Shaikh Sultan has extensive experience in the areas of trade development, tourism, media, and oil as well as in the commercial sector.
4	Mr. Abdulaziz Hamad Aljomaih	Masters in Public Administration “University of Southern California” USA Bachelor of Engineering “King Saud University” Saudi Arabia	Mr. Abdulaziz is the Managing Director of International Investments of Aljomaih Group And the Vice-Chairman of Arcapita Bank in Bahrain.
5	Mr. Abdullah Ali Almajdouie	Bachelor Science “King Fahad University for Petroleum & Minerals” (KFUPM) Master in Business Administration	Mr. Abdullah is the President of Almajdouie Group since 1986. In addition, he is the Chairman of many organizations in Saudi Arabia and UAE.
6	Mr. Adib Abdulla Al-Zamil	Bachelors in Business Administration “Portland State University” USA	Mr. Adib is the Managing Director for Finance and Investments of Zamil Group Holding Company.
7	Mr. Ahmed Rashid Al-Arbeed	Bachelor Degree in Petroleum & Natural Gas Engineering “Pennsylvania State University” USA	Mr. Ahmed is the Chief Executive Officer for Dana Gas. He was the Former Chairman and Managing Director, Kuwait Oil Company (KOC), Kuwait Foreign Petroleum Exploration Co. (KUFPEC) and Oil Development Co. (ODC).
8	Mr. Khalid Abdul Rahman Saleh Al-Rajhi	Bachelor Degree in Finance “King Fahd University” Saudi Arabia	Mr. Khalid is the Chief Executive Officer of Al-Rajhi Partners & Al-Rajhi Holdings. In addition, he serves on the Board of several companies.
9	H.H. Shaikha Hanadi Nasser Bint Khaled Al Thani	Executive MBA “London Business School” Bachelors Degree in Economics “Qatar University” Masters Degree in Economics “University of London”	Shaikha Hanadi is the Founder and Chairperson of AMWAL, Al Waab City and Nasser Bin Khaled Al Thani & Sons Group. In addition, she serves on the Board of several companies.

10	Mr. Majid Hamid Jafar	Bachelor and Master Degrees in Engineering (Fluid Mechanics and Thermodynamics) "Cambridge University" UK MA (with distinction) in International Studies and Diplomacy from "University of London's School" of Oriental & African Studies MBA (with distinction) from "Harvard Business School" USA	Mr. Majid is the Chief Executive Officer, Crescent Petroleum, Sharjah and Vice Chairman of Crescent Group of companies. Mr. Majid worked at Shell International in the exploration and production sectors, gas and power in London within the international LNG group. In addition to his contribution at the Royal Institute of international affairs in London.
11	Mr. Nasser Al-Nowais	Bachelor Degree in Business & Public Administration "New York University" USA	Mr. Nasser is the Managing Director, Abu Dhabi Trade Center and the Chairman of Rotana Hotel Management Corp Ltd. He served as Former Under-Secretary of Finance and Director of the Abu Dhabi Development Fund.
12	Mr. Rashad Mohammed Al-Zubair	BA in Business Administration "University of Colorado" USA	Mr. Rashad is the Chairman of The Zubair Corporation in Sultanate of Oman and the Chairman of Oman Arab Bank. Mr. Rashad was the Deputy Chairman of the Oman Business Council and member of its founding Directors. He was Director at Oman International Development and Investment Company SAOG (OMNIVEST) and at the Capital Market Authority.
13	Mr. Said Arrata	B.Sc. in Petroleum Engineering "North America Universities"	Mr. Said is the Chairman and CEO of Sea Dragon Energy in Canada, a public company involved in exploration and production of oil and gas concessions operating and producing in Egypt. He was the CEO of Centurion Energy International and the Executive Manager of Fuel X Energy and Deep Well Oil and Gas.
14	Dr. Tawfeeq Abdulrahman Almoayed	Bachelor Degree in Electrical Engineering with Honors PHD in Telecommunications "London University" Fellowship of the Institute of Engineering and Technology of the UK	Dr. Tawfeeq is the Chairman of T A Almoayed and Sons WLL and the Director of Bahrain Philanthropic Society. He was the First Deputy Chairman of Bahrain Telecommunications Co. (BATELCO) and Executive Committee Member. He was also the Founding Chairman and the Managing Director of Gulf Petro-Chemical Industries Company.
15	Mr. Varouj Nerguizian	Sciences Economiques "Universite' Saint-Joseph" Lebanon	Mr. Varouj is the Executive Director and General Manager of Bank of Sharjah. He is also the Chairman and General Manager of Emirates Lebanon Bank SAL, Lebanon. He is also a Founding Member and Chairman of the Lebanese Educational Fund SA and of the Lycee' Libanais Francophone Prive, Dubai a non-profit educational initiative that caters to the needs of the Lebanese and Francophone communities of the UAE.
16	Mr. Ziad Abdullah Ibrahim Galadari	BA in Law "UAE University"	Mr. Ziad is the Founder & Chairman of Galadari & Associates. He is also the Chairman of Group Galadari Investments and the Supreme Committee for Dubai International Arabian Horse and Equestrian and Jebel Ali Equestrian and Race Federation.
17	Mr. Rashid Saif Al Jarwan	Bachelor Degree in Petroleum & Natural Gas Engineering "Pennsylvania State University" USA	Mr. Rashid is the Executive Director of Dana Gas. He was the General Manager for Dana Gas for 3 years and Adgas for 8 years. He held various executive and technical positions in the Adnoc Group of companies for 28 years in Abu Dhabi. He served on the Board of National Petroleum Construction Co., National Drilling Co., FERTIL, Abu Dhabi and Sharjah Industrial Development.

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
1	Mr. Hamid Dhiya Jafar	Chairman, Crescent Petroleum Group of Companies Chairman, Gulftainer Ltd. Chairman of the Board of Governors of "Pearl Initiative" (in cooperation with the United Nations) Founding Shareholder of Abraaj Capital Director, URUK Group Founder, UAE Chapters of the Young Presidents Organization and the World Presidents Organization Member, International Chief Executives Organization Member of the Board of Trustees, American University of Sharjah Chairman of the Finance Committee, American University of Sharjah
2	Dr. Adel Khalid Al-Sabeeh	Chairman, Proclad Group International Ltd. (subsidiary of National Industry Group) Chairman, NIC, UK Chairman, Kuwait Petroleum Corporation Deputy Chairman, Ikarus Petroleum Industries Company, Kuwait Board Member,Higher Planning Board, Kuwait Member, Kuwait Foundations of Advancement of Science, Kuwait
3	H.H. Shaikh Sultan Bin Ahmed Al-Qasimi	Deputy Chairman, Sharjah Petroleum Council Deputy Chairman, Sharjah Equestrian & Racing Club Chairman, Sharjah Pipeline Company (Anabeeb) Deputy Chairman, Sharjah LPG Co. Chairman, Basma Group Chairman, Green Plant LLC Chairman, Sharjah Commerce and Tourism Development Authority Chairman, Sharjah Media Corporation Member of Sharjah Executive Council Chairman of the Medical Waste Co. (WEKAYA) LLC Chairman, Sharjah National Oil Company
4	Mr. Abdulaziz Hamad Aljomaih	Managing Director, International Investments of Aljomaih Group Vice-Chairman, Arcapita Bank, Bahrain Director, Ettihad Etisalat Company, KSA Managing Director, Pergola Holding & its subsidiaries Director, Pearl Initiative (A United Nations Initiative), UAE
5	Mr. Abdullah Ali Almajdouie	Vice Chairman, Almajdouie Group Chairman, Almajdouie Heavy Lift Co., Bahrain Chairman, Almajdouie De Rijke Logistic Co. Chairman, Rabigh Petrochemical Logistic LLC Chairman, Star Marines Services, Dubai Director, Arbah Capital Investment Company Director, Prince Mohammed Bin Fahad University Director, Makhazen Co., Abu Dhabi Consulting Member, Tharawat, Dubai
6	Mr. Adib Abdulla Al-Zamil	Director, Zamil Group Holding Company Director, Zamil Industrial and Investment Company (ZIIC) Director, Bank Al-Bilad (Saudi Joint Stock Company) Director, Jadwa Investments Director, Methanol Chemical Co. Ltd (CHEMANOL)
7	Mr. Ahmed Rashid Al-Arbeed	Director, Kuwait Petroleum Corporation Member, Kuwait Engineering Society and Society of Petroleum Engineers in USA, Association of International Petroleum Negotiators
8	Mr. Khalid Abdul Rahman Saleh Al-Rajhi	CEO, Al Rajhi Partners & Al-Rajhi Holdings -Chairman, Procare Hospitals -Chairman, Al-Salam Schools -Director, Saudi Telecom Company -Director, Saudi Cement Company -Director, Walaa Insurance Company -Director, Takweens Advance Industries -Director, The Research & Scientific Programs Fund (KFUPM) -Member, The Higher Consul, Eastern Province (Governmental Sector) -Member, The Prisoners Affairs Committee (Governmental Sector) -Member, The "UN Pearl Initiative Program"

9	H.H. Shaikha Hanadi Nasser 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
10	Mr. Majid Hamid Jafar	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 Board Member, the New Leaders of International Institute of Education (IIE) Board Member, the Royal Institute for International Affairs in London Member, the Young Arab Leaders (YAL) Accredited Director, the Institute of Directors (IoD Mudara)
11	Mr. Nasser Al-Nowais	Managing Director, Abu Dhabi Trade Center Board Member, Abu Dhabi Council for Economic Development Chairman, Aswaq Management & Services Chairman, Rotana Hotel Management Corp Ltd.
12	Mr. Rashad Mohammed Al-Zubair	Chairman, The Zubair Corporation ("Z-Corp"), Sultanate of Oman Chairman, Oman Arab Bank Vice Chairman, Barr Al Jissah Resort Co. SAOC
13	Mr. Said Arrata	Chairman and Chief Executive Officer, Sea Dragon Energy in Canada
14	Dr. Tawfeeq Abdulrahman Almoayed	Chairman, TA Almoayed and Sons WLL Director, Bahrain Philanthropic Society Founding Chairman & Managing Director, Gulf Petro-Chemical Industries Co. Vice 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
15	Mr. Varouj Nerguizian	Executive Director and General Manager, Bank of Sharjah Chairman and General Manager, Emirates Lebanon Bank SAL, Lebanon Director, Growthgate PEF Founding Member and Chairman, Lebanese Educational Fund SA Founding Member and Chairman, Lycee' Libanais Francophone Prive, Dubai
16	Mr. Ziad Abdullah Ibrahim Galadari	Founder & Chairman, Galadari & Associates Chairman, Galadari Investments Group Chairman, Dubai International Arabian Horse Championship and Jebel Ali Race Course Council Vice-Chairman, UAE Equestrian and Racing Federation Director, Dubai World Trade Centre Director, DU Telecommunications Services
17	Mr. Rashid Saif Al Jarwan	Board Member, Emirates General Petroleum Corporation (EMARAT) Board Member, Oman Insurance Company

Directors' Remuneration

The Directors receive annual remuneration. The Corporate Governance 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. Directors' remuneration is disclosed in the annual financial statements of the company. The Executive Directors are not entitled to any Directors' remuneration.

The following table shows the remuneration for the members of Board of Directors and Committees during the fiscal year of 2011.

	2011				
Board Member	Board Meetings	Corporate Governance & Remuneration Committee	Audit & Compliance Committee	Board Steering Committee	Total
H.H. Shaikh Ahmed bin Sultan Al-Qasimi	500,000				500,000
Mr. Hamid Dhiya Jafar	500,000			100,000	600,000
Dr. Adel Khalid Al-Sabeeh	500,000			75,000	575,000
H.H. Shaikh Sultan bin Ahmed bin Al-Qasimi	500,000		75,000		575,000
Mr. Abdulaziz Hamad Aljomaih	500,000		75,000		575,000
Mr. Abdullah Al-Majdouie	500,000		75,000		575,000
Mr. Adib Abdullah Al-Zamil	500,000	75,000			575,000
Mr. Ahmed Rashid Al-Arbeed	-	-	-	-	-
Mr. Khalid Abdul Rahman Saleh Al-Rajhi	500,000		75,000		575,000
H.H. Sheikha Hanadi Nasser Al Thani	500,000	75,000			575,000
Mr. Majid Hamid Jafar	500,000	75,000			575,000
Mr. Nasser Al Nowais	500,000		75,000		575,000
Mr. Rashad Mohammed Al-Zubair	500,000	75,000			575,000
Mr. Said Arrata	500,000	75,000		75,000	650,000
Dr. Tawfeeq Abdulrahman Almoayed	500,000	100,000		75,000	675,000
Mr. Varouj Nerguizian	500,000		100,000	75,000	675,000
Mr. Ziad Abdullah Ibrahim Galadari	500,000	75,000		75,000	650,000
Mr. Rashid Saif Al Jarwan	-	-	-	-	-
Total	**8,000,000**	**550,000**	**475,000**	**475,000**	**9,500,000**

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 five (5) times during the year 2011 in the following dates: 23 February, 20 April, 6 July, 28 September and 22 November.

Board of Directors' Meetings during 2011

Board Members	23 February	20 April	6 July	28 Sept.	22 Nov.
Mr. Hamid Dhiya Jafar, Chairman	√	√	√	√	√
Dr. Adel Khalid Al-Sabeeh, Vice Chairman	√	√	√	√	√
H.H. Shaikh Sultan Bin Ahmed Al-Qasimi	√	√	x	x	x
Mr. Abdulaziz Hamad Aljomaih	√	√	x	x	x
Mr. Abdullah Ali Almajdouie	√	√	x	√	x
Mr. Adib Abdulla Al-Zamil	√	√	x	√	x
Mr. Ahmed Rashid Al-Arbeed	√	√	√	√	√
Mr. Khalid Abdul Rahman Saleh Al-Rajhi	√	√	x	x	x
H.H. Shaikha Hanadi Nasser Al Thani	√	x	x	√	x
Mr. Majid Hamid Jafar	√	√	√	√	√
Mr. Nasser Al-Nowais	√	√	x	√	√
Mr. Rashad Mohammed Al-Zubair	x	√	x	√	√
Mr. Said Arrata	√	x	x	√	x
Dr. Tawfeeq Abdulrahman Almoayed	√	√	√	x	x
Mr. Varouj Nerguizian	√	√	√	√	√
Mr. Ziad Abdullah Ibrahim Galadari	√	√	√	√	√
Mr. Rashid Saif Al Jarwan	√	√	√	√	√

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 Securities Exchange) with information, statements and documents as required in accordance with applicable laws, rules and regulations.

Details of Senior Executives in the company

The following talble shows the names of the Senior Executives in the company with their designations, appointment dates and total remuneration plus bonus paid to them.

Full Name	Job Title	Date of Joining	Total remuneration & bonus
Mr. Ahmed Al Arbeed	Chief Executive Officer	2-Jan-2008	5,731,440
Mr. Rashid Saif Al Jarwan	Executive Director	1-Feb-2006	1,648,716
Total			**7,380,156**

Details of transactions with related parties (stakeholders)

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.

	2011		2010	
	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	-

External Auditors

Brief Summary on External Auditors

The Annual General Assembly appoints the external auditors on an annual basis. The Annual General Meeting held in April 2011 re-appointed Ernst & Young as external auditors for the company's financial accounts for the year 2011. Ernst & Young is one of the top four professional services firms in the world with a network of 144,000 practitioners in more than 700 locations worldwide. It is an independent professional firm, which has been present in the region since 1923 and is a member firm of Ernst & Young Global.

Today, they have over 4,100 professionals, out of 18 offices in 14 countries in the Middle East. A significant number of these staff, including partners, are bilingual in Arabic and English. The practice's industry specialties include Financial / Banking, Oil and Gas sectors, Technology and Communications, Healthcare, Manufacturing and Industrial services, Infrastructure & PPP services, Hotel and Leisure, Consumer's products and allied sectors. Its major clients include government ministries, major oil companies in the public as well as private sectors, airlines, central banks, and major financial institutions

External Auditors' Fees

The external auditors' fees are disclosed in the annual financial statements. The statutory fees for 2011 amounted to AED 350,000.

Audit and Compliance Committee

The Audit and Compliance Committee consists of the following members:

Members of the Committee	Title
1. Mr. Varouj Nerguizian	Chair-Independent Director
2. H.H. Shaikh Sultan Bin Ahmed Al-Qasimi	Non-Executive Member
3. Mr. Abdulaziz Hamad Aljomaih	Independent Director
4. Mr. Abdullah Ali Almajdouie	Independent Director
5. Mr. Khalid Abdul Rahman Saleh Al-Rajhi	Independent Director
5. 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 and Compliance 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) for the year of 2009 including:

1. Revision of the quarterly financial statements;
2. Supervision of 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. Revision of risk management and internal control procedures;
5. Recommendation of the fees of the company's external auditors; and
6. Recommendations 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 and Compliance 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 and Compliance 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. The Committee held five meetings (5) during 2011 as follows:

Audit & Compliance Meetings in 2011

Committee Members	30 January	10 May	9 August	27 September	12 November
Mr. Varouj Nerguizian	√	√	√	√	√
Mr. Khalid Al Rajhi	√	x	x	x	√
H.H.Shaikh Sultan Bin Ahmed Al-Qasimi	x	x	x	x	x
Mr. Abdulaziz Aljomaih	√	√	√	x	√
Mr. Abdulla Almajdouie	√	x	√	√	√
Mr. Nasser Al-Nowais	x	x	√	√	x

Corporate Governance and Remuneration Committee

The Corporate Governance and Remuneration Committee is composed of the following:

Members of the Committee	Title
1. Dr. Tawfeeq Abdulrahman Almoayed	Chair-Independent Director
2. Mr. Majid Hamid Jafar	Non-Executive Member
3. H.H. Shaikha Hanadi Nasser Al Thani	Independent Director
4. Mr. Said Arrata	Non-Executive Member
5. Mr. Ziad Abdullah Ibrahim Galadari	Independent Director
6. Mr. Adib Abdullah Al-Zamil	Independent Director
7. Mr. Mohammed Al-Zubair	Independent Director

The majority of the members of the Committee including its Chair is independent and is 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. Preparating 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. Reviewing 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.

Corporate Governance and Remuneration Committee Meetings in 2011

Committee Members	22 February	27 September	21 November
Dr. Tawfeeq Abdulrahman Almoayed	√	√	x
Mr. Majid Jafar	√	√	√
Mr. Ziad Galadari	√	√	√
H.H. Shaikha Hanadi Nasser Al Thani	√	√	√
Mr. Said Arrata	√	√	x
Mr. Ahmed Al Arbeed	√	√	√
Mr. Rashad Al-Zubair	x	x	√
Mr. Adib Al-Zamil	x	√	x

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 scrutinize 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 and Compliance 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. The Department audits the internal control systems in the company and their subsidiaries and affiliates that own a significant share at Dana Gas. The Department has the full power to obtain information about those companies from any of its employees and its various departments at group level.

The Internal Audit Manager prepares an annual audit plan and submits it to the Board of Directors for approval as deemed appropriate. The plan involves the comprehensive assessment of the risks facing the company to address them properly and effectively.

The annual plan includes a list of the work and activities of the Department during the year including confirmation and advisory work. It also includes a specific oversight work scope with its timeline.

General Information

Statement of Shareholders' ownership as of 31/12/2011

Type	No. of Investors	Holdings	Percentage
UAE	84,605	2,449,909,204	37.11%
GCC	152,458	1,909,361,173	28.92%
Arab	5,269	307,427,998	4.66%
Others	4,669	1,935,302,925	29.31%
TOTAL	**247,001**	**6,602,001,300**	**100.00%**

Type	No. of Investors	Holdings	Percentage
Individuals	245,937	2,702,499,877	40.94 %
Companies	1,124	3,575,468,883	54.16 %
Governments	15	324,032,540	4.90 %
TOTAL	**247,076**	**6,602,001,300**	**100.00 %**

Statement of Shareholders owning 5% or more of the company's capital

Citizenship	Investor Name	Holding	%
UAE	Crescent Petroleum Co. Ltd.	1,328,108,236	20.12%

Major events encountered by the company during 2011

1. Dana Gas announced its first 2011 discovery in "South Abu El Naga-2" well in Egypt in May.
2. Dana Gas participated and sponsored in the 2nd Middle East Prospect Exhibition (MEPEX) in Bahrain in September 2011.
3. Dana Gas participated in the World Economic Forum (WEF) in Jordan in October 2011. The delegation was led by the Chairman of the Board accompanied by the company's senior officials.
4. Dana Gas group production posted 19% rise in production reaching 66,200 barrel of oil equivalent. The gross proved plus probable reserves were 159 million barrel of oil equivalent achieving a production replacement ratio of 145%.

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.com.

The Executive Management holds regular meetings with investors, shareholders, 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.

Hamid Dhiya Jafar
Chairman
11 April 2012

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


H.H. Sheikh Sultan Al Qasimi


Mr. Adib Al Zamil
Director


Mr. Nasser Al Nowais
Director


Mr. Khalid Al Rajhi
Director


Mr. Abdullah Almajdouie
Director


Mr. Abdulaziz Hamad Aljomaih
Director

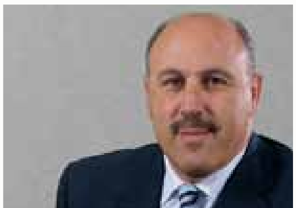

Mr. Rashad Al Zubair
Director


Mr. Rashid Saif Al-Jarwan
Executive Director


Mr. Said Arrata
Director


Mr. Majid Jafar
Director


Dr. Tawfeeq Almoayed
Director


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

Our People

Our People

People are our most important asset

Dana Gas PJSC continues to be the leading private sector natural gas company in the Middle East, North Africa, South Asia (MENASA) region creating value for the benefit of our shareholders and for the wellbeing and the economic growth of the region.

Our people are recruited and compensated in line with our strategy to attract and retain the necessary talent to strengthen/support the successful delivery against our corporate targets as approved by the Board of Directors. We are certain this is the key aspect for the Dana Gas Group to ultimately enhance Shareholder value.

New Initiative

Dana Gas initiated a project to upgrade our Human Capital Management software to enable Employees to have a "self-service" portal in order to manage their annual leave, timekeeping and expense reporting, etc. This initiative is in line with our ambition to streamline our HR systems and to extend the same service to our various Operating Units.

Resourcing, Attraction and Retention Philosophies

Our success derives from the competence and dedication of our Employees.

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 skilled people. It is part of our evolving culture to value expertise in a way that will generate the necessary proficiency that we require across the Group now and for the future.

Our compensation and remuneration philosophy continues to recognize and incentivize performance while aligning Employees to Shareholders' interests.

Diversity

We strive to create a collaborative workplace that includes men and women from different cultural/ethnic backgrounds, experience, lifestyles, generations and perspectives. We respect and value everyone, and embrace diversity which brings understanding and connection to the communities in which we operate. It helps us better understand the needs of our varied partners, customers, clients and shareholders. Dana Gas is committed to equal opportunities and does not condone discrimination of any kind. These values have helped us to build and maintain the diverse and robust community that is Dana Gas today.

Talent Development

Developing our people and helping them to reach their full potential are key elements to deliver our Group's business strategy. This continues to be one of our main priorities. We recognize that the success of our strategy depends on the success of our Employees, and we therefore provide individual attention and team training. In 2011 we spent 363 days

in learning and development activities across all disciplines.

We believe in training, coaching and mentoring, and encourage Employees to develop with us, both personally as well as professionally. Where it is beneficial to the Employee and the organization, we encourage transfers between Business Units in the Group to transfer technical skills, build broad experience across the group, and develop people to increase and broaden their competencies.

Performance Management and Performance Evaluation

In order to accomplish the Group objectives, we first define the criteria by which we measure success. Then we set goals, review performance periodically, assess results and recognize people for their contributions. We understand that praise is an important motivator and want to create a team-spirit where we recognize achievement and support each other to accomplish our shared goals.

As we look ahead to 2012, we continue our journey towards developing a catalog of capabilities and behaviors needed to deliver broader and more complex services. This will help Dana Gas continue resourcing, developing and retaining the highly qualified and motivated people we need.

We are also continuing to enhance our internal communications across the Group and encourage an open and honest dialogue among Employees, Departments, Operating Units and Asset Management Teams.

Operational and Behavioral Change

Sharpening individual as well as operational performance continues to be the Executive Management's priority. We are focused on building a simple, lean and efficient organization with clear responsibilities and accountabilities enabling faster decision making while enhancing control.

We have a strong shared focus on maintaining a healthy and safe working environment. In order to continue improving each day, Dana Gas encourages all Employees to report any incidents that affect their health and safety, with the goal of causing no accidents nor harm to people and minimizing any adverse effect on the environment.

Employee Engagement, Communication and Feedback

The Executive Management believes in a two way dialogue. Employees are a vital stakeholder group. We value their feedback and experience on how we run our business. Our Quarterly Performance Reviews serve in communicating our operational as well as financial results and are intended to 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 we have started to nourish and encourage.

Headcount, Net To Company's Interest, as of the 31st of December 2011					
	Employees	Contractors	JV Employees	JV Contractors	Subtotal
UAE- DG Corporate	36	1	0	0	37
UAE- DG Operations	21	4	0	0	25
UAE - Sajgas	17	17	0	0	34
UAE - UGTC	14	0	0	0	14
KSA - DG Office	1	1	0	0	2
Iraq, KRI - DG Office	9	0	0	0	9
Iraq, KRI - CreDan	1	0	153	1	155
Egypt - DG Office	129	15	0	0	144
Egypt - WASCO (100% DG)	7	0	342*	318	667
Egypt - EBGDCO (26% DG)	2	0	13	13	28
Egypt - Komombo (50% DG)	2	0	14	18	34
Subtotal	239	38	522	350	
Total					1149

* WASCO Employees are, for the great majority, EGPC Employees

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.

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

Dana Gas is seeking to integrate CSR into its core as an organization that operates across the Middle East, North African and South Asia region. This is an effort that Dana Gas has undertaken since its establishment, and it prides itself in continuing along this path despite the financial crisis, unlike many companies which now view the CSR as a face-saving practice.

Through a multi-faceted approach to CSR, Dana Gas remains strongly committed to supporting noble causes, whether helping improve healthcare standards for individuals in the rural areas where the company's concessions are located, or through lending a helping hand in raising the profile of the Emirate of Sharjah, the company aims to continue offering as much assistance as possible, conscious of its responsibility to lend a helping hand in making the world a better place to live.

We endeavor to make a positive and lasting contribution to society and its members. We believe the best way of achieving this is by empowering them with the best tools for leadership.

During 2011, our contributions focussed on the environment, education, sports, health and sustainable community businesses.

Educating the Next Generation to Care for our Environment

Dana Gas continues to work closely with Bee'ah, a public private company in partnership with the Sharjah City, on a comprehensive bilingual (Arabic & English) program to educate the school children 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 the UAE.

Encouraging the Sharing of Knowledge

Dana Gas is the proud sponsor of the "Dana Gas Chemical Engineer Chair" at the American University of Sharjah, the support for which is planned to last until 2015. During this period, the company and the university will work closely to develop cutting-edge research in the field of oil and gas.

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-focussed workshops in Sharjah.

As further support to the American University of Sharjah, which is regarded as one of the region's best universities, the Company annually presents the "Dana Gas Excellence Awards", in which top graduating seniors who have graduated with honors are recognized for their outstanding achievements.

Dana Gas is working towards undergoing significant transformation so that CSR is no longer managed as a separate deliverable, but as part of the experience of being an employee in an organisation that lives its values. Whether it is environmental consciousness, supporting entrepreneurs, focusing humantiarian efforts, or supporting a renowned football club, Dana Gas fully understands its role in sustainability and CSR, and how it can foster an environment that embeds a CSR ethic in its activities and business practices.

Auditors' Report and Financial Statements

SajGas Plant, UAE

Independent Auditors Report to the Shareholders of Dana Gas PJSC

Report on the financial statements

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

Directors' responsibility for the consolidated financial statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Emphasis of matters

We draw attention to note 11 to the consolidated financial statements which discloses that the continued delay in commencement of gas supplies has prompted a key supplier of the Group to initiate arbitration proceedings against its ultimate supplier.

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

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

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

Sharjah, United Arab Emirates
14 March 2012

Consolidated Income Statement

Year ended 31 December 2011

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

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

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

Consolidated Statement of Financial Position

At 31 December 2011

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

Director
14 March 2012

Director
14 March 2012

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

Consolidated Cash Flow Statement

Year ended 31 December 2011

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

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

Consolidated Statement of Changes in Equity

At 31 December 2011

	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 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	-	-	-	-	-	-	-	-
Issue of bonus share (note 18)	164	600	-	-	-	-	(164)	(600)
Loss attributable to non-controlling interes	-	-	-	-	-	-	-	-
At 31 December 2011	**1,801**	**6,600**	**34**	**125**	**34**	**125**	**112**	**409**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**138**	**506**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**138**	**506**
Board compensation	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**(7)**
Transfer to reserves	**-**	**-**	**14**	**51**	**14**	**51**	**(28)**	**(102)**
Share based payment (note 25)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issue of shares (note 25)	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**
Addition to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2011	**1,801**	**6,602**	**48**	**176**	**48**	**176**	**220**	**806**

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

Consolidated Statement of Changes in Equity (continued)

At 31 December 2011

	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*
	107	392	48	176	4	15	2,099	7,691
	-	-	-	-	-	-	43	158
	32	**118**	**-**	**-**	**-**	**-**	**32**	**118**
	32	118	-	-	-	-	75	276
	-	-	-	-	-	-	(2)	(7)
	-	-	-	-	-	-	-	-
	3	11	-	-	-	-	3	11
		-	-	-	-	-	-	-
		-	-	-	(1)	(4)	(1)	(4)
	142	**521**	**48**	**176**	**3**	**11**	**2,174**	**7,967**
	-	**-**	**-**	**-**	**-**	**-**	**138**	**506**
	(89)	**(326)**	**-**	**-**	**-**	**-**	**(89)**	**(326)**
	(89)	**(326)**	**-**	**-**	**-**	**-**	**49**	**180**
	-	**-**	**-**	**-**	**-**	**-**	**(2)**	**(7)**
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2	**7**	**-**	**-**	**-**	**-**	**2**	**7**
	-	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**	**1**	**4**	**1**	**4**
	55	**200**	**48**	**176**	**4**	**15**	**2,224**	**8,151**

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

Notes to the Consolidated Financial Statements

At 31 December 2011

1 ACTIVITIES

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

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

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

Principal subsidiaries and jointly controlled entities of the Group at 31 December 2011 and the group percentage of ordinary share capital or joint venture interest are set out below:

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Statement of compliance

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

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

New and amended standards and interpretations

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

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

Improvements to IFRSs (May 2010):

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

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

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

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements; therefore the amendment on the Interpretation had no effect on the financial position, financial performance, stated accounting policy or other disclosures of the Group.

Improvement to IFRS

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

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

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

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

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

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

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12 (refer below), what remains in IAS 27 is limited to accounting for subsidiaries, jointly arrangements, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12 (refer below), IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. . The amendments become effective for annual periods beginning on or after 1 January 2013.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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

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

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

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

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

Basis of consolidation

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

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

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

(b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

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

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

Foreign currency translation

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Group companies

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) Depletion

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

(b) Impairment – exploration and evaluation assets

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Provisions
General
Provisions are recognised when the Group has 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.

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

- Impairment of goodwill: The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was USD 308 million (2010: USD 308 million).

- Recoverable value of intangible oil and gas assets: The Group determines at each statement of financial position date whether there is any evidence of impairment in the carrying value of its intangible oil and gas assets. This requires management to estimate the recoverable value of its intangible oil and gas assets by reference to quoted market values, similar arms length transactions involving these assets etc. The carrying amount of such intangibles at 31 December 2011 was USD 170 million (2010: USD 183 million).

- The Group carries its investment properties at fair value, with changes in fair values being recognised in the consolidated income statement. The Group engaged a firm of qualified independent property consultant to determine fair value reflecting market conditions as at 31 December 2011.

- Decommissioning costs: Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

- Units of production depreciation of oil and gas properties: Oil and gas properties are depreciated using the units of production (UOP) method over total proved reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field. Each items' life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates changes.

4 SEGMENTAL INFORMATION

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

Year ended 31 December 2011

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

4 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2010

	United Arab Emirates	*Egypt*	*Kurdistan Region of Iraq*	*Total*
	USD mm	*USD mm*	*USD mm*	*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 expenditure				(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 & amortisation	(1)	(100)	(3)	(104)
Provision for impairment	(4)	(1)	-	(5)
Change in fair value of investment property	(2)	-	-	(2)
Exploration expenditure	-	(13)	-	(13)

Notes to the Consolidated Financial Statements

At 31 December 2011

5 NET REVENUE

	2011 **USD mm**	2010 USD mm
Gross sales	**685**	483
Less: Royalties	**(169)**	(137)
Net sales	**516**	346
Tariff / Management Fee	**5**	4
Net revenue	**521**	350

6 INVESTMENT AND FINANCE INCOME

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

7 PROVISION FOR IMPAIRMENTS

	2011 **USD mm**	2010 USD mm
Provision for Impairment of oil & gas assets	-	5
	-	5

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

8 FINANCE COSTS

	2011 **USD mm**	2010 USD mm
Finance cost on convertible bonds (note 20)	**87**	85
Finance cost capitalised	**-**	(29)
	87	56

9 EARNINGS PER SHARE

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

	2011	*2010*
Earnings:		
Net Profit for the period- USD mm	**138**	43
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	**6,602**	6,600
EPS (Basic) – USD:	**0.021**	0.006

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

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

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

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

**As disclosed in Note 20, on 7 July 2008, the conversion rate for the convertible sukuk was determined and has been fixed at 17,343.3 shares for every USD 10,000 Sukuk Certificate. The shareholders in the Annual General Meeting on 21 April 2010 approved the issuance of 10% bonus shares, due to which the conversion exchange ratio was reset from 17,343.3 shares to 19,076.6 shares for every USD 10,000 Sukuk Certificate. As at 31 December 2011 the conversion had an anti-dilutive effect on the EPS of the Company.

10 PROPERTY, PLANT AND EQUIPMENT

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

Capital Work in Progress comprises:

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

10 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land	*Building*	*Oil & gas interests*	*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 11)	-	-	53	-	-	-	-	53
Transfer from Capital work in progress	-	-	-	-	-	54	(54)	-
Dry hole costs written-off	-	-	(13)	-	-	-	-	(13)
At 31 December 2010	13	1	608	96	18	79	564	1,379
Depreciation/Depletion:								
At 1 January 2010	-	-	206	16	6	2	-	230
Depreciation/depletion charge for the year	-	-	93	6	1	4	-	104
At 31 December 2010	-	-	299	22	7	6	-	334
Net carrying amount:								
At 31 December 2010	13	1	309	74	11	73	564	1,045

Capital Work in Progress comprises:

	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

Notes to the Consolidated Financial Statements

At 31 December 2011

11 INTANGIBLE ASSETS

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

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

(a) Oil and Gas Interests

Oil and gas interests of USD 170 million relates to Dana Gas Egypt which is the Upstream (Exploration and Production) Division of the Dana Gas Group. Dana Gas Egypt has a number of concessions and development leases in Egypt which are described below in more detail:

- El Wastani Development Lease – This development lease is held with a 100% working interest and represents approximately 26% of current production in Dana Gas Egypt. El Wastani production includes both gas and associated gas liquids. This lease has 13,017 acres of land included within its boundary and is located in the Nile Delta of Egypt.

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

- West El Manzala Exploration Concession – Dana Gas Egypt holds a 100% working interest in this Concession, which includes 476,216 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land is 30 June 2012. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt. To date, nine development leases have been created from this exploration concession and produce both natural gas and associated liquids representing approximately 64% of Dana Gas Egypt current volumes. The Company has applied for a tenth development lease to cover the recently discovered South Abu El Naga field.

11 INTANGIBLE ASSETS (continued)

(a) Oil and Gas Interests (continued)

- West El Qantara Exploration Concession – Dana Gas Egypt holds a 100% working interest in this Concession, which includes 319,618 acres of exploration land. The expiry date of the Exploration Concession and the total relinquishment of the non-productive land is 30 June 2012. Current drilling programs and seismic interpretation are being carried out to explore the acreage. This concession is located in the Nile Delta of Egypt and two development leases have been granted to date. Only one is producing yet (Sama) and contributes approximately 9% of Dana Gas Egypt current volumes.

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

In addition to the above Dana Gas has the following interests which were acquired as part of Centurion acquisition:

- Block 4 Sao Tome/Nigeria – a 9.5% working interest in the exploration block. The block is located off shore in the Nigeria/Sao Tome Joint Development Zone. The block has 15,876 acres (net share) of land in its boundaries. Dana Gas and another partner have withdrawn from the Concession in accordance with the relevant agreements (PSC/JOA) due to the operator's decision to drill a third well without approval. The operator has initiated arbitration against the company and the proceedings are ongoing.

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

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

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

(b) Purchase, transmission, sweetening and sale rights

Intangible assets include USD 857 million which represent the fair value of the rights for the purchase, transmission, sweetening and sale of gas and related products acquired by the Company through its shareholdings in SajGas, UGTC and CNGCL. The fair value of the rights acquired in 2005 was determined by reference to valuation exercises undertaken by professionally qualified independent third parties based on the expected future cash flows arising from the underlying contractual relationships. The intangible assets will be amortised over 25 years from the date of commencement of commercial activity in accordance with the terms of the contracts to which they relate. Commercial activity has not yet commenced. In July 2010, NIOC introduced gas into its completed transmission network and Dana Gas' UGTC pipeline and Saj gas processing facilities in Sharjah for commissioning purposes. However, subsequently as it pressured up, NIOC discovered significant leaks in its offshore gas transmission system which it is now rectifying. This repair may take several months. Notwithstanding this, Crescent Petroleum has initiated international arbitration to seek a ruling on its binding 25 years gas supply contract with NIOC and expects an enforceable decision by the international tribunal in 2012. Based on the information available at this time, the Directors and management are confident of a positive outcome.

In accordance with IAS 36 requirement relating to intangible assets not yet available for use, management had undertaken an impairment review of the intangible assets as at 31 December 2011. Management understands that progress has been made on the construction of the required facilities by the ultimate gas supplier and has reviewed the various inputs into the original valuation model. Management believes that the inputs into the original valuation model have not significantly changed.

11 INTANGIBLE ASSETS (continued)

Key assumptions used in value in use calculations

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

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

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

Oil prices: management has used an oil price assumption based on the forward curve prevailing at the end of 2011 for the impairment testing of its individual oil & gas investments.

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

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

(c) Goodwill

Goodwill of USD 308 million relates to the acquisition of Dana Gas Egypt (previously known as Centurion) in January 2007 which enabled Dana Gas to acquire the upstream business qualification and therefore the rights to develop the gas fields in the Kurdistan region of Iraq. The recoverable amount of the above cash generating unit has been determined based on value in use calculation using cash flow projections approved by senior management up to a 20 year period or the economic limit of the producing field. The pre-tax discount rate applied to cash flow projections is 10% (2010: 10%). Cash flows are generated using forecasted production, capital and operating cost data over the expected life of each accumulation.

12 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2011	*2010*
	USD mm	*USD mm*
At 1 January	**315**	283
Change in fair value	**(89)**	32
At 31 December	**226**	315

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

13 INVESTMENT PROPERTY

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

	2011	2010
	USD mm	USD mm
Balance at 1 January	**37**	39
Change in fair value	**(6)**	(2)
Balance at 31 December	**31**	37

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

Investment properties are stated at fair value which has been determined based on a valuation performed by an independent firm of qualified property consultants, with reference to comparable market transactions. This valuation reflects the decline in property values generally and has therefore resulted in a decrease in the fair value by USD 6 million (31 December 2010: decrease of USD 2 million) which was charged to the consolidated income statement.

14 INVENTORIES

	2011	2010
	USD mm	USD mm
Spares and consumables	**65**	64
Less: Provision for impairment of inventory	**(12)**	(13)
	53	51

15 TRADE AND OTHER RECEIVABLES

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

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

15 TRADE AND OTHER RECEIVABLES (continued)

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

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

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 USD mm	*2010 USD mm*
Balance at 1 January	**10**	9
Change in fair value	**-**	1
Balance at 31 December	**10**	10

17 CASH AND CASH EQUIVALENTS

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

Cash at bank earns profit at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one week and three months, depending on the immediate cash requirements of the Group, and earns profit at the respective short-term deposit rates. The fair value of cash and short-term deposits is USD 112 million (2010: USD 159 million). The effective profit rate earned on short term deposits ranged between 1.25% to 4.5% (2010: between 2.5% and 6.1%) per annum. As at 31 December 2011, 84% of cash and cash equivalents were held with UAE banks.

18 SHARE CAPITAL

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

18 SHARE CAPITAL (continued)

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

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

19 OTHER RESERVES

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

20 BORROWINGS

	2011 USD mm	2010 USD mm
Non-current		
Convertible bonds	**-**	887
Bank borrowings	**25**	10
	25	897
Current		
Convertible bonds	**904**	-
Bank borrowings	**1**	-
	905	-
Total borrowings	**930**	897

a) Convertible bonds

In October 2007, the Group issued convertible bonds in the form of Trust Certificates / Sukuk-al-Mudarabah ("the Sukuk") for a total value of USD 1 billion. The Sukuk, which is structured to conform to the principles of Islamic Shariah, was approved by the Company's shareholders at an Extraordinary General Meeting held in July 2007. The Sukuk matures in 2012 and has a fixed profit rate of 7.5% to be paid quarterly. The reference share price for conversion, based on the terms and conditions of the Sukuk issue, was determined on 7 July 2008. The exchange ratio has been set at 17,343.4 shares for every USD 10,000 Sukuk certificate (i.e. an effective conversion price of AED 2.118 per share). Each Trust Certificate may be redeemed at the option of the holder at any time after 7 July 2008 to the maturity date. It may be converted into shares, or at the option of Dana Gas, into the equivalent sum of money based on the prevailing share price at conversion. Dana Gas may also voluntarily redeem the Trust Certificates under certain conditions. In 2008, Dana Gas repurchased convertible sukuk with a nominal value of USD 80 million. At the Annual General Meeting held on 21 April 2010, the shareholders approved a 10% bonus issue and consequently conversion ratio for Sukuk was increased from 17,343.3 shares to 19,076.7 shares for every USD 10,000 Sukuk certificate (i.e. an effective conversion price reset at AED 1.926 per share).

20 BORROWINGS (continued)

a) CONVERTIBLE BONDS (continued)

The Sukuk is secured against the shares of Dana Gas LNG Ventures Ltd., SajGas and UGTC in accordance with the principles of Islamic Shariah. The fair value of the liability component, included in liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity.

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

	2011 USD mm	*2010 USD mm*
Liability component as at 1 January	**887**	**871**
Finance cost (note 8)	**87**	**85**
Profit paid	**(58)**	**(58)**
	916	**898**
Current portion of profit classified under trade payables and accruals (note 22)	**(12)**	**(11)**
Liability component as at 31 December	**904**	**887**

b) BANK BORROWINGS

On 22 April 2010, EBGDCO (Joint Venture Company) entered into a facility agreement with Commercial International Bank (Egypt) S.A.E. "CIB" for financing USD 66.5 million of the then investment cost of project of establishment of Gas Liquids extraction plant at Ras Shukeir. The facility matures in 12 years and carries variable rate of LIBOR + Margin during the repayment period. In order to finance increase in investment costs, the company, on 20 December 2011, executed a supplemental facility agreement with CIB for additional USD 20 million. This supplemental facility matures in 4 years from the date of first drawdown. Danagaz WLL share of the draw downs is approx USD 26 million as at 31 December 2011. As continuing security for the performance and full payment of liabilities under the Facility Agreement and supplemental facility agreement, Danagaz W.L.L. has pledged its entire share in share capital of EBGDCO in favour of CIB. Dana Gas PJSC has given an undertaking "not to dispose" of its equity stake in Danagaz WLL except to a qualified investor approved by CIB, Egypt and not create any lien/pledge of its equity stake in Danagaz WLL. This facility is non-recourse to Dana Gas PJSC. The Pledge of Danagaz shares and the undertaking from Dana Gas PJSC as stated above will be released by the bank upon the Project achieving Project and Financial completion.

21 PROVISIONS

	2011 USD mm	*2010 USD mm*
Asset decommissioning obligation	**15**	15
Employee's end of service benefits	**2**	2
	17	17

22 TRADE PAYABLES AND ACCRUALS

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

23 INTEREST IN JOINT VENTURE

(a) Kurdistan Region of Iraq Project

In April 2007, the Group entered into agreements with the Kurdistan Regional Government of Iraq for the development of its substantial gas resources on the Khor Mor and 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.

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

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

23 INTEREST IN JOINT VENTURE (continued)

(b) UGTC / Emarat Joint Venture:

The Group has a 50% interest in the UGTC / Emarat jointly controlled operations which owns one of the largest gas pipeline in the UAE (48 inch diameter) with a installed capacity of 1000 MMscfd, to transport gas in Sharjah from Sajaa to Hamriyah. The following amounts represent the Group's 50% share of the assets and liabilities of the joint venture:

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

(c) EBGDCO:

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

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

24 CONTINGENCIES AND COMMITMENTS

(a) Dana Gas Egypt

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

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

(b) Nigeria / Sao Tome

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

(c) Sharjah Western Offshore

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

(d) EBGDCO

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

25 SHARE BASED PAYMENT

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

Pioneer Grant – Share Option Plan

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

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

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

25 SHARE BASED PAYMENT (continued)

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

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

Restricted Shares

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

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

	2011	*2010*
	USD mm	*USD mm*
Expense arising from share-based payment transactions	**2**	3
	2	3

26 RELATED PARTY DISCLOSURES

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

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

	2011		*2010*	
	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 consolidated statement of changes in equity.

Compensation of key management personnel

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

	2011	2010
	USD mm	USD mm
Short-term benefits	**10**	7
Stock options	**2**	2
	12	9

27 INCOME TAX EXPENSE

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

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

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

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

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

(a) Foreign currency risk

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

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

(b) Interest rate risk

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

(c) Price risk

The Group is exposed to equity securities price risk in relation to the investments held by the Group and classified as available-for-sale financial assets. The Group's investment is in equity of an entity which is publicly traded on Budapest Stock exchange. As at 31 December 2011, if the equity price had increased/decreased by 10% with all other variables held constant the Group's comprehensive income for the year would have been USD 23 million higher/lower (2010: USD 32 million).

(d) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from trade receivables and bank balances.

(i)Trade receivables

The trade receivables arise from its operations in UAE, Egypt and Kurdistan Region of Iraq. The requirement for impairment is analysed at each reporting date on an individual basis for major customers. As majority of the Group's trade receivable are from Government related entities no impairment was necessitated at this point. The maximum exposure to credit risk at the reporting date is the carrying amount as illustrated in note 15.

(ii) Bank balances

Credit risk from balances with banks and financial institutions is managed by Group's Treasury in accordance with the Group policy. Investment of surplus funds is made only with counterparties approved by the Group's Board of Directors. The Group's maximum exposure to credit risk in respect of bank balances as at 31 December 2011 is the carrying amount as illustrated in note 17.

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk factors (continued)

(e) Liquidity risk

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

Year ended 31 December 2011	***On demand USD mm***	***Less than 3 months USD mm***	***3 to 12 months USD mm***	***1 to 5 years USD mm***	***>5 years USD mm***	***Total USD mm***
Borrowings	**-**	**6**	**973**	**14**	**17**	**1,010**
Trade and other payables	**-**	**134**	**-**	**-**	**-**	**134**
Provisions	**-**	**-**	**2**	**6**	**22**	**30**
	-	**140**	**975**	**20**	**39**	**1,174**

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*
Boorrowings	-	6	63	978	-	1,047
Trade and other payables	-	140	-	-	-	140
Provisions	-	-	-	8	21	29
	-	146	63	986	21	1,216

Capital risk management

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010. Capital comprises share capital, retained earnings, other reserves and equity component of convertible bonds, and is measured at USD 2,124 million as at 31 December 2011 (2010: USD 2,103 million).

29 FAIR VALUE ESTIMATION

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

	Carrying amount 2011 USD mm	***Fair value 2011*** *USD mm*	*Carrying amount 2010 USD mm*	*Fair Value 2010 USD mm*
Financial Assets				
Available for sale financial asset	**226**	**226**	315	315
Trade and other receivables	**499**	**499**	254	254
Cash and short term deposits	**112**	**112**	159	159

29 FAIR VALUE ESTIMATION (continued)

	Carrying amount 2011	**Fair value 2011**	Carrying amount 2010	Fair Value 2010
	USD mm	**USD mm**	USD mm	USD mm
Financial liabilities				
Borrowings	**930**	**930**	897	897
Trade and other payables	**134**	**134**	140	140

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
	USD mm	USD mm	USD mm	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 fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1 and comprises of Budapest Stock Exchange (BSE) equity investments classified as available-for-sale financial asset.

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

30 FINANCIAL INSTRUMENTS BY CATEGORY

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

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

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

30 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Liabilities at fair value through the profit	*Derivatives used for hedging*	*Other financial liabilities and 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	-	-	1,054	1,054

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