Dana Petroleum plc

Interim Report & Accounts 2002

A SOUND STRATEGY

DELIVERING RESULTS

Two Significant UK Acquisitions

- Purchase of Caledonia, Enoch and Cavendish fields from Conoco completed in May
- Acquisition of Hudson, Banff and Otter fields from Agip expected to complete shortly

Rising Production

- First half average production of 5,275 boepd. August production 8,679 boepd
- On target to exceed 15,000 boepd by year-end and grow further in 2003

Improved Financial Strength

- Total net assets grew 25% to £133 million
- New $75 million revolving credit facility to fund UK developments

Continued Exploration Success

- Discovered Barbara gas-condensate field offshore UK and won adjacent licence
- Ghana shallow-water and UK Drum exploration wells nearing completion
- Farm out deals to reduce costs and accelerate drilling in Australia and Mauritania
- Finding costs remain low at less than $2 per barrel

Active Drilling Programme Ahead

- Six further fields being considered for potential development
- Planning up to eight additional exploration wells over next 2 years

"2002 is a transforming year for Dana, with three exploration wells and five production wells either already completed or in progress. We began 2002 with three producing fields and expect this number to rise to eight by year-end, delivering significant revenue growth and a more balanced portfolio of exploration, development and production.

The Group's strengthened balance sheet and new $75 million bank facility will underpin the financing of ongoing field developments, yielding increased cashflow and enabling our high-impact exploration plans to be realised."

Charles M Smith CBE, Chairman of Dana

INTRODUCTION

The first half of 2002 has been a period of unprecedented activity for Dana, with significant progress made in delivering its strategy of creating shareholder value through the combination of organic growth and astute commercial transactions.

Having set a goal to broaden and strengthen the Company's production base, two major UK acquisition deals were delivered; firstly, the purchase of interests in the Caledonia, Enoch and Cavendish fields from Conoco, in part exchange for Dana's interest in Orca-Beta, which completed in May; and secondly the acquisition of a more extensive portfolio of production, development and exploration assets from ENI Agip, which is due to complete imminently.

The impact of these transactions has led to 2002 being very much a "year of two halves". Although average production for the first half of 2002 was some 13% lower than the same period in 2001, this will be more than compensated for in the second half as more production comes on stream. As a result, Dana's full year 2002 revenues should show a significant increase over 2001. The first half results are also reflective of a period of lower oil prices and the fact that Dana's production has, to date, been reliant on the performance of only three fields. As the Agip deal completes, Dana's production is on target to more than treble by next spring. This increase in production will largely emanate from the addition of two existing UK fields (Hudson and Banff) and two new UK developments (Otter & Caledonia), both due on stream before the year-end.

Following behind Otter and Caledonia, plans are being finalised for two new gas developments, Ujung Pangkah in Indonesia and F16-E in the Netherlands. Studies are also underway for other potential field developments in the North Sea, such as Cavendish, Enoch and Goosander. It is anticipated that this expanding portfolio will yield continuous growth and that production will therefore continue to rise over the next few years.

In parallel with growth in the Company's production business, the exploration effort has continued at pace. Dana's strategy recognises the exceptional value that can be created by a high quality, high impact exploration portfolio. This summer, Dana recorded its fifth consecutive exploration success in the North Sea, with the discovery of the 'Barbara' gas-condensate field. Recognising the technical merit of the prospect from 3D seismic analysis, Dana was able to increase its equity at very low cost ahead of drilling the well. With operations at two other exploration wells now nearing completion, namely the 'Drum' prospect in the UK North Sea and the WT-2X shallow-water well in Ghana, we should be able to report further exploration results in the near future.

The above drilling represents only the start of an exciting programme of exploration, with Dana planning to participate in up to eight further wells over the next 2 years. Before year-end we expect to drill the large 'Morangie' prospect in the Perth Basin offshore Western Australia, where, through a series of transactions, Dana has secured a free-carried position through the forthcoming well. Importantly, drilling is scheduled on blocks adjacent to Dana's acreage in Mauritania and Faroes in the fourth quarter. Whilst Dana is not participating directly in these wells, their outcomes may influence our future work programmes and, in particular, the selection of drilling locations for wells planned on our licences in 2003. Also in 2003, at least one further target should be drilled in the highly prospective Pangkah area, offshore Indonesia. In Ghana, our deep-water 3D seismic is being interpreted using leading-edge technologies and is yielding excellent results. Major fan structures have been confirmed, with the potential to contain several hundred million barrels of reserves each. Dana's technical team is expecting to finalise drilling locations in deep-water Ghana in the coming months.

Dana is thus maturing as an independent upstream oil company with a growing revenue base, a range of low cost field development opportunities and a well balanced international exploration portfolio.

STRATEGY

Dana's strategy is to create shareholder value by delivering strong growth in hydrocarbon reserves, production and earnings over the medium term. This is being achieved through the combination of a high-impact exploration programme, featuring regular opportunities for material step increases in reserves, supported by cashflow generated from a low risk portfolio of proven oil and gas fields.

Dana generates its development and production opportunities both organically through exploration success and through commercial transactions where acquisition is on very attractive terms. In particular, Dana has sought to trade its exploration success directly for producing fields, thus bringing oil to market more expeditiously and avoiding the intensive capital requirements of organic development alone. To complete the cycle, Dana maintains exposure to high potential exploration by actively pursuing ground floor entry in new exploration provinces and innovative commercial arrangements in special situations.

RESULTS

Dana's balance sheet has strengthened considerably over the last year, with total net assets at mid 2002 rising by 25% to £132.8 million. The Group's cash balance was £25.8 million at 30 June 2002, up 119% from mid 2001.

As expected, Dana's average production for the first half of 2002 was some 13% lower than the corresponding period in 2001 at 5,275 boepd (4,420 bpd of oil plus 5.13 mmscfpd of gas). This was due to natural decline at the South-Vat Yoganskoye oil field, and periods of shut-down for compressor repairs and low buyer nominations at the Victor gas field. Output from both fields is expected to improve going forward as infill drilling and workovers are completed. Turnover was 28% lower at £10.4 million due to the compound effect of lower production and lower average oil prices. In particular, Russian domestic oil prices fell heavily during the period, as a result of the crude overhang generated by the Government's agreement with OPEC to restrict exports. Since then the market has recovered strongly and prices have already returned to the levels prior to the export restriction.

Group operating profit was £2.4 million, pre-tax profit was £1.5 million and earnings per share were 0.1 pence. The trading figures for the second half of the year are expected to see the significant benefits of the Banff and Hudson fields being integrated into Dana's portfolio, and in addition, first oil is due on stream from the Otter and Caledonia developments towards year-end.

Net debt remained low for the period at £2.97 million. In connection with the acquisition of assets from ENI Agip, the Company has put in place a new $75 million revolving credit facility which it will begin utilising in the second half.

In April 2002, the UK Budget announced changes to the tax regime affecting profits from oil and gas extraction. The rate of corporation tax was increased and, offsetting this, the capital allowance structure was improved to encourage investment in the North Sea. Dana has significant accumulated tax losses in the UK, and therefore pays no corporation tax at present. Whilst the net effect of these Budget changes on Dana is neutral in the near-term, we feel that overall such unexpected changes to the fiscal system may deter companies looking to invest and maximise production from the mature UKCS environment.

The Board has analysed Dana's ongoing exploration and development programme, and believes it is most important to channel the Company's free cash into those attractive investment opportunities which are most likely to yield exceptional returns. Dana currently has a number of exciting projects at key stages of value creation and therefore the directors do not recommend payment of an interim dividend.

REVIEW OF OPERATIONS

Europe

UK production from the Claymore oil field and the Victor gas field continues in line with forecast, having averaged a total of 3,013 boepd net to Dana during the first half of 2002 (2,158 bpd of oil plus 5.13 mmscfpd of gas). With Dana's acquisition of Agip's interests in the Banff, Hudson and Otter fields due to complete shortly and the Caledonia field on target for a December start up, North Sea production is expected to increase markedly to over 13,000 boepd by year-end.

The drilling rig upgrades carried out on the Claymore platform in 2001 have already begun to yield benefits with the successful C75 horizontal well, drilled to test and produce from a previously undrained crestal location, adding some 400 bopd net to Dana. The rig is now drilling the extended reach 'Drum' exploration well to test a structure to the west of the main Claymore field. Since the well is being drilled from the platform, any discovery could be brought on stream quickly, both adding to Dana's reserves and providing valuable data on reservoir performance. This new information will be integrated into the full Drum area development. A further infill well on the main Claymore field is also planned to start drilling in fourth quarter 2002.

The deal with Conoco to acquire interests in the Caledonia, Enoch and Cavendish fields in exchange for Dana's Orca-Beta interests was completed on 1st May 2002. The Caledonia field is the most advanced of these projects, currently being developed as a subsea tie-back to the Britannia platform. Caledonia is scheduled to produce first oil in December 2002, with initial oil production net to Dana estimated to be approximately 3,000 bpd, following encouraging drilling results. Dana's other fields for which development plans are being studied include the Enoch oil and Cavendish gas fields in the UK and the F16-E gas field in the Netherlands, which, if sanctioned, would lead to further production increases over the next 2 to 3 years.

Dana's tally of exploration successes in the North Sea was extended by the 'Barbara' well (23/16c-8), drilled to test a Forties sandstone formation on the east flank of a salt diapir. The well encountered a gross reservoir section of 276 feet full to base with liquids rich gas. The results of the well are being incorporated into regional models with a view to determining a future appraisal strategy and development options for the field. Recognising the upside potential of the Barbara area, Dana and its co-venturers successfully applied for the exploration rights in neighbouring Block 23/11 in the UK's 20th Licencing Round.

In the Faroe Islands, where Dana holds options to acquire a stake of up to 20% in the Faroes Oil & Gas Company ('Føroya Kolvetni' or 'FK'), exploration activity has been progressing well. FK holds two highly prospective licences (002 and 005) together with operator Agip. Following encouragement from the interpretation of 3D seismic, and the Marjun discovery by Amerada Hess in neighbouring Licence 001, drilling is scheduled to begin on Licence 002 in second quarter 2003.

Africa

Dana is currently completing drilling operations at the WT-2X well in the shallow-water area of its Western Tano licence offshore Ghana. This well is further exploring the shallow Cretaceous sandstone horizon which tested oil in the WT-1X well in 2000, and evaluating the potential of the deeper 'Lion' and 'Foxtrot' formations, which are known to contain hydrocarbons regionally. Individual prospect sizes in the shallow-water are typically moderate, so more than one accumulation may be needed to achieve commerciality via shared infrastructure. By contrast, in the deep-water area of Western Tano the geology is quite different and prospect sizes here are an order of magnitude larger, with each structure having the potential to contain several hundred million barrels of reserves. Detailed evaluation work continues on a number of very large fan structures, recently confirmed by 3D seismic, with a view to optimising a location for the first deep-water well in late 2003.

In Mauritania, Woodside's recent successful appraisal well at the Chinguetti field and new discovery at 'Banda' in Block 4, has further confirmed the significant hydrocarbon potential of the region. Woodside are scheduled to drill the 'Thon' prospect in the north of Block 6 before year-end. This prospect lies close to the boundary with Dana's Block 7, in which the preliminary interpretation of the 3D seismic data has identified several attractive leads in different horizons. The results of the Thon well will assist in selecting potential targets in Block 7 for drilling in the second half of 2003. In Block 1, following very encouraging results from infill 2D seismic and the conclusion of farm-out terms with Energy Africa, Dana is currently mobilising a boat to acquire 3D seismic. This will be processed and interpreted in the first half of 2003, enabling the Block 1 group to make a drilling decision by mid 2003.

Offshore Kenya, Dana operates four large permits, equivalent to over 200 UK blocks. This emerging east African region, incorporating adjacent Tanzania, has recently been attracting interest from major oil companies. Dana's technical review of historic geological and geophysical data has delivered encouraging results and our exploration team is currently evaluating what new data needs to be acquired to best generate drilling prospects.

Far East

In Indonesia, a Plan of Development for the Ujung Pangkah field was submitted to the authorities in July, targeting first gas production in 2004. This paves the way for final discussions on the Gas Supply Agreement, which is expected to be concluded over the next few months following the signature of a memorandum of understanding for gas sales. In parallel, work continues on the possible joint development of the nearby Sidayu oil field and the significant oil leg underlying the Ujung Pangkah gas field. Acquisition of additional seismic is underway to determine the shape of a potentially large western extension of the Ujung Pangkah field. If the seismic is encouraging, appraisal drilling is expected to occur quickly so that any additional volumes can be accommodated within the development scheme.

Additional exploration targets have been identified within the Pangkah licence area and further exploration drilling is planned in 2003.

Offshore Western Australia, commercial transactions with Origin Energy and Voyager Energy have secured an attractive position for Dana in the Perth basin with a free-carried 30% interest in licence WA-226P. A well to test the large 'Morangie' prospect, with potentially up to 250 million barrels of oil in place, will be drilled during the next three months.

Russia

The South Vat-Yoganskoye Oil Field, operated by the Dana controlled subsidiary Yoganoil, contributed 2,262 boepd over the first six months of the year. Plans are being drawn up for a third phase of drilling and workover activity involving up to 7 wells in the western area of the field, with a view to arresting the field's natural decline.

Development of the Upper Salym field is making good progress. Drilling has begun with four wells being commissioned to establish initial production. First oil should flow in the fourth quarter and additional wells are planned in late 2002 and through 2003.

BOARD DEVELOPMENT

Dana is a growing public company and the Board sets and maintains high standards for managing the Group's assets, business development and corporate governance.

Effective 14 June 2002, Mr Colin Goodall joined the Board as a non-executive director following a career spanning 24 years with the BP group. After qualifying as a chartered accountant, he worked in Africa for a number of companies and became a partner at Touche Ross. Mr Goodall joined the finance team at BP in 1975, later becoming the first Chief of Staff within the BP group. From 1995 to 1999 he served as Chief Financial Officer of BP Europe and then as BP's senior representative in Russia. In addition to his normal board duties, Mr Goodall will also serve as a member of Dana's Audit and Remuneration Committees.

Recognising Dana's enlarged asset base and portfolio of new business opportunities, the Board has decided to further develop the finance and commercial teams, appointing separate directors for each function. Effective 1 November 2002, Dana's current Finance Director, Mr Graham Stewart, will become Commercial Director and focus on the delivery of new business opportunities. Also effective 1 November, Mr David MacFarlane will join the Board as Group Finance Director. Mr MacFarlane holds more than 20 years' experience in financial control and management in the upstream oil and gas business. Between 1985 and 1993 he was Finance Director of the MOM Group, later becoming Finance Director for two key subsidiaries of the John Wood Group plc. He joins Dana from Amerada Hess where during the last six years he has headed finance for its fast growing international exploration and production group and, most recently, for its substantial UK production business.

OUTLOOK

Dana's management team is currently focused on two principal objectives. Firstly, we are committed to executing the work programme associated with the existing portfolio. Our schedule of exploration drilling over the next 2 years will target a number of world-class prospects, success in any one of which would add significant reserves and value to the Company. Complementary to this, our development and production business will be enhanced by the assets acquired from Conoco and Agip, and augmented by a number of new field developments which are expected to come forward for project sanction in 2003.

Secondly, we are actively pursuing new opportunities in line with Dana's strategy. Exploration leveraged acquisitions will continue, particularly in the North Sea, where opportunities continue to be created by the asset rationalisation of major oil companies. In order to maintain Dana's future potential at a high level, we will continue to seek opportunities to gain early entry into new exploration areas which offer exceptional upside. The Board recognises that as Dana's portfolio builds, both acquisition and divestment opportunities will arise from within the existing asset base. These will be executed where cash or other forms of value can be added quickly and efficiently.

In summary, the outlook is bright with the expectation of rising earnings and results from key exploration wells in Australia, Indonesia, Europe and West Africa during the next 2 years. Looking beyond this period, the Company remains well positioned with a strong balance sheet, increasing revenue generation and a portfolio of high quality investment opportunities to continue growth over the coming years.

Charles M. Smith, CBE
Chairman

Thomas P. Cross
Chief Executive

Consolidated Profit and Loss Account

	Unaudited Six months to 30 June 2002 £'000	Unaudited Six months to 30 June 2001 £'000	Audited Year to 31 December 2001 £'000
Turnover	**10,394**	14,521	26,639
Cost of sales - continuing operations	**(6,947)**	(9,095)	(16,839)
	3,447	5,426	9,800
Administration expenses	**(1,090)**	(1,164)	(2,371)
Operating profit	**2,357**	4,262	7,429
Foreign exchange (loss)/gain	**(724)**	(145)	775
Share of profit/(loss) of associated undertaking	**-**	9	(58)
Profit on ordinary activities before interest	**1,633**	4,126	8,146
Interest receivable	**458**	434	866
Interest payable and similar charges	**(579)**	(723)	(1,345)
Profit on ordinary activities before taxation	**1,512**	3,837	7,667
Taxation	**(347)**	(691)	(1,234)
	1,165	3,146	6,433
Minority interest	**102**	(323)	(850)
Net profit for the period	**1,267**	2,823	5,583
Earnings per share	**0.1p**	0.3p	0.6p

Consolidated Balance Sheet

	Unaudited 30 June 2002 £'000	Unaudited 30 June 2001 £'000	Audited 31 December 2001 £'000
Fixed assets			
Oil and gas assets	**119,475**	103,854	110,630
Investments	**14,360**	14,754	14,557
	133,835	118,608	125,187
Current assets			
Stocks	**91**	307	140
Debtors	**4,604**	2,017	5,754
Investments	**12**	11	12
Cash at bank and in hand	**25,754**	11,738	30,192
	30,461	14,073	36,098
Creditors (amounts falling due within one year)	**(10,981)**	(4,640)	(10,604)
Net current assets	**19,480**	9,433	25,494
Total assets less current liabilities	**153,315**	128,041	150,681
Creditors (amounts falling due after more than one year)	**(9,486)**	(11,664)	(9,129)
Provision for liabilities and charges	**(6,013)**	(4,364)	(4,242)
Accruals and deferred income	**(5,020)**	(5,641)	(5,320)
	132,796	106,372	131,990
Capital and reserves			
Called-up share capital	**11,066**	8,984	11,066
Share premium	**30,498**	8,554	30,498
Merger reserve	**97,679**	97,679	97,679
Profit and loss account	**(7,827)**	(9,906)	(8,800)
	131,416	105,311	130,443
Minority interest in subsidiary undertaking	**1,380**	1,061	1,547
	132,796	106,372	131,990

Consolidated Cash Flow Statement

	Unaudited Six months to 30 June 2002 £'000	Unaudited Six months to 30 June 2001 £'000	Audited Year to 31 December 2001 £'000
Net cash inflow from operating activities	**3,461**	1,894	4,288
Returns on investments and servicing of finance			
Interest received and similar income	**458**	434	866
Interest paid and similar charges	**(73)**	(307)	(401)
Net cash inflow from returns and servicing of finance	**385**	127	465
Taxation	**(373)**	(985)	(1,656)
Capital expenditure			
Payments to acquire tangible and intangible assets	**(8,243)**	(8,893)	(18,200)
Loan advanced to investments	**–**	(1,999)	–
	(8,243)	(10,892)	(18,200)
Management of liquid resources			
Short term deposits	**2,578**	(289)	(12,253)
Net cash flow before financing	**(2,192)**	(10,145)	(27,356)
Financing			
Issue of ordinary share capital	**–**	–	24,026
(Decrease) in cash	**(2,192)**	(10,145)	(3,330)

Statement of Total Recognised Gains and Losses

	Unaudited 30 June 2002 £'000	Unaudited 30 June 2001 £'000	Audited 31 December 2001 £'000
Profit for the period	**1,267**	2,823	5,583
Unrealised foreign exchange differences	**(294)**	1,711	57
Total recognised gains for the period	**973**	4,534	5,640

Reconciliation of Movements in Shareholders' Funds

	Unaudited 30 June 2002 £'000	Unaudited 30 June 2001 £'000	Audited 31 December 2001 £'000
Total recognised gains for the period	**973**	4,534	5,640
New shares issued	**–**	–	24,026
Net change in shareholders' funds	**973**	4,534	29,666
Opening shareholders' funds	**130,443**	100,777	100,777
Closing shareholders' funds	**131,416**	105,311	130,443

Notes

(i) **Basis of preparation**

These results do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985.

The comparative figures for the year ended 31 December 2001 have been derived from the statutory financial statements for that year, which have been delivered to the Registrar of Companies and on which the auditors gave an unqualified audit report. These figures have been adjusted to reflect the adoption in the current period of FRS18 under which over/underlift balances on producing fields are reflected by adjusting cost of sales rather than turnover as previously reported.

(ii) **Earnings per share**

The calculation of earnings per share is based on the weighted average of shares – 1,106,596,416 (first half 2001 – 898,360,233).

(iii) **Dividend**

The Directors do not recommend payment of a dividend.

Independent Review Report to Dana Petroleum plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2002 which comprises the Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds and the related notes (i) to (iii). We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

Ernst & Young LLP
London

25 September 2002

Directors, Advisors and Other Information

DIRECTORS	Charles M Smith, CBE, Chairman * Thomas P Cross, Chief Executive Graham D Stewart, Finance Director Andrew M Bostock, Technical Director Angus M Pelham Burn * Colin R Goodall * * Independent Non-Executive Director	
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Copies of this Interim Report are being sent to all shareholders; further copies will be available from the Company's headquarters at 36 Carden Place, Aberdeen, AB10 1UP.

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