

# Corporate Governance 2009

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# Directors and Officers

### **Colin R Goodall<sup>†</sup>**

#### **Chairman & Non-Executive Director**

Colin Goodall joined the Dana Board in 2002 following a successful 24 year upstream oil career with the BP group. A Chartered Accountant, Mr Goodall worked in Africa for a number of companies, including Anglo American Corporation, and became a partner at Touche Ross. He 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. Mr Goodall has been a lecturer and examiner for London University in the areas of management and finance. Mr Goodall is the Non-Executive Chairman of The Parkmead Group plc and a Non-Executive Director of a number of other companies. He was appointed Chairman of the Dana Group in January 2005.

### **Thomas P Cross<sup>‡</sup>**

#### **Chief Executive Officer**

Tom Cross co-founded Dana Petroleum in 1994. Mr Cross is a Chartered Director and Petroleum Engineer. After graduating with a First Class Honours Degree in Engineering he went on to hold senior positions with Conoco, Thomson North Sea and Louisiana Land and Exploration. From 1990 to 1993 he was Director of Engineering at the UK's Petroleum Science and Technology Institute. Mr Cross is a Fellow of the Institute of Directors, a former Chairman of the Society of Petroleum Engineers and advisor to BBC Radio on oil affairs. In 2005 he was elected as Chairman of BRINDEX, the Association of British Independent Oil Companies, and continues in that role. He is Non-Executive Chairman of AUPEC, a global advisory group on energy policy and economics. AUPEC was acquired by The Parkmead Group plc during 2009 and Mr Cross is a Non-Executive Director of The Parkmead Group plc.

### **David A MacFarlane**

#### **Finance Director**

David MacFarlane, an economics graduate and Chartered Accountant, joined Dana in 2002. He has more than 25 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 sub-groups of the John Wood Group plc. He joined Dana from Amerada Hess where during the previous six years he headed finance for its fast growing international exploration and production group and latterly for its substantial. Europe, North Africa and Asia production business.

### **Stuart M Paton**

#### **Technical & Commercial Director**

Stuart Paton was appointed to the Dana Board as Technical & Commercial Director in 2006, having joined the Company's senior executive team in 2003 to lead Dana's Business Development and Commercial activities. Dr Paton is a graduate of Cambridge University, where he gained an Honours Degree in Natural Sciences (specialising in Earth Sciences), followed by a Phd in Geology. At Shell International, in The Hague, he worked on the quantitative assessment of exploration and development opportunities world-wide. Later at Shell in the UK, he held senior technical and commercial roles as well as being on the commercial leadership team of Shell UK, before joining Dana. Dr Paton is a Member of the Institute of Directors and the Petroleum Exploration Society of Great Britain.

### **John J Arnton**

#### **Company Secretary & Group Legal Manager**

John Arnton joined Dana in 2000 as Group Legal Manager and was appointed Company Secretary in the same year. He began his legal career in Scottish private practice and moved to Total Oil Marine as a staff lawyer in 1985. Mr Arnton joined Occidental Petroleum in 1987 as Legal Counsel, and continued with the Elf Group following its acquisition of Occidental's UK assets in 1991. He was appointed Legal Manager of Elf Exploration UK in 1996 and became Company Secretary of the Elf Group's UK upstream companies. Mr Arnton is a qualified solicitor and Notary Public. He also holds a postgraduate Diploma in Petroleum Law.

### **D Ian Rawlinson<sup>\*\*</sup>**

#### **Non-Executive Director (and Senior Independent Director)**

Ian Rawlinson joined Dana in 2005 bringing some 20 years' experience in banking and investment, gained with Lazard Brothers, Robert Fleming and Fleming Family & Partners. Ian read law at Cambridge and was called to the Bar in 1981. From 1995 to 2000 he was responsible for building and managing Flemings' investment banking presence in Southern Africa. In 2000 he joined Fleming Family & Partners from its establishment, and until 2005 held various senior executive and advisory positions within this group. Since 2005 he has focused on independent commercial and charitable interests, which concentrate on natural resources, the financial sector, transportation and the environment. He is a director of a number of public and private companies, and is Chairman of Tusk Trust, a UK charity focused on conservation, communities and education

across Africa. He is the Senior Independent Director and chairs the Remuneration and Nominations Committees.

### **Philip J Dayer<sup>\*\*</sup>**

#### **Non-Executive Director**

Philip Dayer joined Dana in 2006, bringing 20 years of public market and corporate finance experience gained with a number of prominent city institutions during which he has advised a wide range of public companies across a variety of sectors including UK and International groups active in the oil and gas sector. After graduating in Law from King's College, London, Mr Dayer qualified as a Chartered Accountant and went on to develop widespread experience as Director or Head of Corporate Finance with Barclays De Zoete Wedd, Citigroup Scrimgeour Vickers, ANZ Grindlays and Societe Generale. Latterly whilst focusing on the energy sector, Mr Dayer was Director of Corporate Finance at Old Mutual Securities and Executive Director at Hoare Govett Limited. Mr Dayer is a Non-Executive Director of a number of other companies. He chairs Dana's Audit Committee.

### **Brian Johnston<sup>\*\*</sup>**

#### **Non-Executive Director**

Brian Johnston joined Dana in April 2008, following a highly successful 34 year career with Bank of Scotland/HBOS (the 'Bank'). Until January 2007, Mr Johnston was Head of Corporate, Scotland, for the Bank where he led the Relationship Banking Operation managing a team of 600 colleagues in 45 locations. He also had responsibility for five other niche business units within the Bank. Mr Johnston has wide-ranging experience across all areas of corporate and acquisition financing, and has worked with a number of Scotland's top entrepreneurs. Between 1990 and 1999 he expanded the Bank's Structured Finance team in Aberdeen from UK domestic MBO/MBI/Acquisitions to major international deals for energy sector companies working in the USA, Canada, South America and the Far East. Mr Johnston is a Non-Executive Director of a number of other companies. He is a Fellow of the Institute of Bankers in Scotland and holds an MBA from Strathclyde University.

\* **Independent Director and member of the Audit and Remuneration Committees**

‡ **Member of the Nominations Committee**



Philip Dayer

David MacFarlane

Ian Rawlinson

Colin Goodall

Tom Cross

Brian Johnston

Stuart Paton

John Arnton

# Statement of Corporate Governance



Colin Goodall,  
Chairman

◆ The Board is responsible to shareholders for providing a specific leadership focus on business strategy and for ensuring the risks and rewards of the business are properly managed throughout the business and economic cycle. Against the challenging economic backdrop, the issue of governance and the proper stewardship of companies in all business sectors is under close scrutiny. The Board is accountable to the Company's shareholders for good corporate governance. In my role as Chairman, I am pleased to report that the Dana Board operates in a very effective manner and continues to be committed to high standards of corporate governance.

This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the 2008 Combined Code ("Combined Code"), which was adopted by the Financial Services Authority for reporting periods commencing on or after 29 June 2008. The Board has noted that the Financial Reporting Council recently issued a report on the effectiveness of the Combined Code and issued a consultation paper on revisions to the code (to be renamed the UK Corporate Governance Code). This will not formally impact the Company until our 2011 reporting period, but the Company will continue to monitor the ongoing developments from this initiative to ensure our corporate governance practices remain compliant and high standards are maintained.

## The Board

The Board comprises the Non-Executive Chairman, the Chief Executive, the Finance Director, the Technical & Commercial Director and three further Non-Executive Directors. The membership and brief biographies appear on page 38. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which are vital to the continuing success of the Group.

All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary will ensure that the Directors receive appropriate training as necessary. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Board has a formal schedule of matters specifically referred to it for decision. In addition to those formal matters required by the Companies Acts to be set before a board of directors, the Board will also consider business strategy and policy, business plans, acquisition and divestment proposals, approval of major capital investment plans, risk management policy, significant financing matters and statutory shareholder reporting.

To comply with the provisions of the Combined Code and in an effort to strive for continual improvement in the effectiveness of the Board, its committees and the individual Board members, the Company has an evaluation process based on individual questionnaires. The Board have also noted that the consultation paper on the UK Corporate Governance Code recommends an external evaluation be undertaken at least every three years, and will monitor how this develops.

The Board meets regularly during the year with additional meetings as dictated by matters arising. In addition, there is frequent dialogue between meetings to progress the Group's business. The Board met formally four times during 2009, with 100% attendance from the Board members in office at the time of the Board meeting. All Directors attended the AGM. To enable the Board to discharge its duties, all Directors receive appropriate and timely information and the Chairman ensures that the Directors take independent professional advice as required. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. Statements of the Directors' responsibilities in respect of the financial statements are set out on pages 45 and 46 and a statement on going concern is given on page 45.

The Company's articles of association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('situational conflicts'). The Board has put in place a formal system for Directors to declare situational conflicts and for these to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, these non-conflicted Directors are required to act in the way that they consider would be most likely to promote the success of the Company and they may impose limits or conditions when giving authorisation, or subsequently, if they think this is appropriate.

Following its introduction, the system for declaration and authorisation of situational conflicts has been followed by the Company. During 2009, a situational conflict was authorised following the acquisition by The Parkmead Group plc of AUPEC Limited, which resulted in Mr T P Cross becoming a major beneficial shareholder in The Parkmead Group plc. As a result of this interest; the existing Non-Executive Board roles in The Parkmead Group plc of Dana's Chairman and Chief Executive; and The Parkmead Group's equity investment in Faroe Petroleum plc, in which the Company is also the largest shareholder, a situational conflict was authorised in respect of the Company's equity investment in Faroe Petroleum plc and any potential dealing with The

Parkmead Group. Accordingly, it was agreed that the Chairman and Chief Executive will not be entitled to cast a vote or be counted in the quorum at any Board meeting in respect of any resolutions of the Board relating to Faroe Petroleum plc or any matters involving The Parkmead Group whilst the situational conflict persists. The system has been tested and found to operate effectively.

The Board has established Committees to assist it in exercising its authority. These Committees are the Audit, Remuneration and Nominations Committees and where matters arose during the year which required the attention of these Committees, a separate meeting of the relevant committee was convened with full attendance by its members. Each of the Committees has detailed Terms of Reference under which authority is delegated by the Board. The Terms of Reference for each Committee can be found under the governance section of the Group's website ([www.dana-petroleum.com](http://www.dana-petroleum.com)).

These committees deal with the following specific aspects of the Group's affairs.

### **Audit Committee**

The Audit Committee, was chaired by Mr P J Dayer and comprises all the Non-Executive Directors other than the Chairman, and meets not less than twice annually. This requirement was satisfied in 2009 and both meetings were attended by all members. The Committee provides a forum for reporting by the Group's external auditors. If required, meetings are also attended by the Chairman and appropriate members of senior management at the specific request of the Committee.

The Audit Committee is responsible each year for reviewing a wide range of matters including the Interim Report and the Annual Report and Accounts before their respective submission to the Board and the monitoring of the controls that are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee advises the Board on the appointment or re-appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with the external auditors. The Audit Committee keeps under review the cost effectiveness, independence and objectivity of the external auditors. In line with the Combined Code, the Audit Committee is also responsible for reviewing annually the requirement for an internal audit function. All the foregoing responsibilities were duly fulfilled in 2009.

The ongoing members of the Audit Committee all have recent and relevant financial experience as detailed in their biographies on page 38.

### **Nominations Committee**

The Nominations Committee is responsible for appointments or re-appointments to the Board. This committee comprises the Non-Executive Directors and Mr T P Cross, is chaired by Mr D I Rawlinson, and generally meets not less than once annually with all members attending. The Nominations Committee is charged with ensuring the necessary balance of skills, knowledge and experience is maintained and represented on the Board. The Nominations Committee considers that the current composition of the Board is satisfactory to provide the proper governance, administration and business counsel in respect of the Company's affairs. It will continue to monitor the situation in 2010.

### **Remuneration Committee**

The Directors who were members of the Remuneration Committee (the "Committee") during the year are shown on page 47.

The responsibility for the establishment of a remuneration policy and its cost is a matter for the full Board, on the advice of the Committee. The recommendations of the Remuneration Committee have been approved without amendment by the Board for submission to shareholders.

The Committee is responsible for developing policy on remuneration for Executive Directors and senior management and for determining specific remuneration packages for each of the Executive Directors. The Committee members have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

During the period under review, the Committee sought the assistance of the Chairman and Chief Executive on matters relating to Directors' performance and remuneration. The Chairman and Chief Executive attend meetings by invitation except when their individual remuneration arrangements are discussed. No Director takes part in discussions relating to their own remuneration and benefits.

Full details of the Remuneration Committee, the Company's policies on remuneration and their application, service contracts and compensation payments are given in the Report on Directors' Remuneration on pages 47 to 57.

### **Relations with shareholders**

Communications with shareholders are given high priority. Extensive information about the Group's activities is provided in the Annual Report and Accounts, the Interim Report and the Interim Management Statements. There is regular dialogue with major institutional shareholders and meetings are offered following the Group's preliminary announcement of the year end results and at the half year. The Company has its own web-site ([www.dana-petroleum.com](http://www.dana-petroleum.com)) for the purpose of improving information flow to shareholders as well as potential investors. Enquiries from individual shareholders on matters relating to their shareholdings and the business of the Group are also welcomed.

The Board also uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Board aims to ensure that the Chairmen of the Audit, Remuneration and Nominations Committees are available at the Annual General Meeting to answer questions and explain details of the resolutions to be proposed at the Annual General Meeting. Notice of the Annual General Meeting and the related papers are sent to shareholders at least 20 clear business days before the meeting in accordance with the Combined Code.

# Statement of Corporate Governance continued

## Internal control

The Board confirms that during 2009 and up to the date of approval of the Annual Report and Accounts it has maintained and updated the procedures necessary to implement the 'Internal Control: Guidance for Directors on the Combined Code' and that these procedures are still in place.

The Board is responsible for establishing and maintaining the Group's system of internal control. Internal control systems are designed to meet the particular needs of the organisation concerned and manage the risks to which it is exposed. The delegation of authority structure which facilitates management of the international business units continues to operate efficiently. By their nature such systems can provide reasonable assurance, but not absolute assurance, against material misstatement or loss. There is a continuous process for identifying, evaluating and managing the risks faced by the Group. The key procedures which the Directors have established with a view to providing effective internal control are as follows:

- Management structure

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each Executive Director has been given responsibility for specific aspects of the Group's affairs. The Executive Directors together with key senior executives constitute the management committee, which meets regularly, to discuss day-to-day operational matters. A "Country Panel" structure has been set up for Egypt and Norway, with each panel comprising three members, including two Executive Directors, and the Country Manager. The panel will meet at least quarterly, or on a more frequent ad-hoc basis as required, to review performance and expenditure items beyond the delegation of authority of the relevant Country Manager.

- Quality and integrity of personnel

The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment.

- Identification of business risks

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks. This includes performing or participating in audits of Joint Ventures (JV) to ensure JV expenditures have been committed with the necessary JV approval and in accordance with JV agreements. The use of financial instruments and the Group's approach to financial risk management is discussed in the Accounting Policies on page 70 and the Financial Review on page 35. The nature of financial instrument risks faced by the Group is further detailed in note 23 to the Group Financial Statements.

- Budgetary process

Each year the Board approves the business plan and annual budget. Key risk areas are identified. Performance is monitored and relevant action taken throughout the year through the regular reporting to the Board of changes to the business plan and variances from the budget and updated forecasts for the year and the three year capital investment programme together with information on the key risk areas.

- Investment appraisal

Capital expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed proposals have to be submitted to the Board or Country Panel. Appropriate due diligence work is carried out if a business or significant assets are to be acquired.

- Audit Committee

The Board has delegated periodic review of the system of financial internal control to the Audit Committee which has reported its conclusions to the Board during the year. The Board has also consulted the Audit Committee, during the year, on other internal control matters. The Audit Committee believes that the Company's external auditors adopt an objective and impartial approach to the audit of the Group and that this is in no way influenced by the extent of non audit work undertaken by the Company's external auditors during the year, as disclosed in note 6 to the Group Financial Statements. Such work in 2009, principally related to due diligence undertaken in connection with the Bow Valley corporate transaction. The Board will continue to carefully consider how such advice is sourced in future. The Audit Committee has considered the need for an internal audit function but has decided that, given the size of the Group and the system of controls in place, it is not required at present. The Audit Committee will continue to review this decision annually particularly in light of the Group's further expansion.

- Annual review and assessment

The Board undertakes an annual review of the effectiveness of the Group's system of internal control in accordance with the Turnbull guidance. This includes a review of the Audit Committee's assessment of the system of financial internal control. A review took place in December 2009 and addressed internal control issues generally and, more specifically, financial, operational and compliance controls and risk management. The review included reports from, and interviews with, key operating personnel.

The Board will continue to review and report on the effectiveness of the Group's system of internal controls as detailed earlier on this page and the Audit Committee will review annually the need for an internal audit function.

## Directors' and auditors' responsibilities

The responsibilities of the Directors and auditors are set out in the Report of the Directors on pages 45 and 46 and in the independent Auditors' Report on page 60.

## Statement of compliance with the Combined Code

Throughout the year ended 31 December 2009, the Company has been in compliance with the provisions set out in Section 1 of the Combined Code.

## Additional disclosure

The information specified in the UK Financial Services Authority Disclosure and Transparency Rules DTR 7.2.6, is located elsewhere in this Annual Report. The Directors' Report, on page 43, provides the details of where the information is located.


This Statement of Corporate Governance was approved by the Board on 26 March and signed on its behalf by:



**Colin Goodall**  
Chairman

26 March 2010

# Report of the Directors

 The Directors submit their report together with the audited Group and Company financial statements for the year ended 31 December 2009.

## Business review and future activities

The principal activities of the Group are oil and gas exploration and production. The Company is a public limited company, incorporated in England and Wales, and its securities are quoted on the London Stock Exchange, under the designation DNX. The Chairman and Chief Executive's Statement and the Business Review describe the significant developments in the business of the Group during 2009 and its future prospects.

## Results, dividends and retentions

The Group profit for the year amounted to £22,574,000 (2008: £96,235,000). The Directors do not recommend the payment of a dividend.

## Corporate governance

The UK Financial Services Authority's Disclosure and Transparency Rules (DTR 7.2) require that certain information be included in a corporate governance statement set out in the Directors' Report. The information required by the Disclosure and Transparency Rules and the UK Financial Services Authority's Listing Rules (LR 9.8.6) is located in the Statement of Corporate Governance on pages 40 to 42, with the exception of the information relating to shares (DTR 7.2.6), which is detailed below.

## Additional information for shareholders

The following provides additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK Law.

At 31 December 2009, the Company's issued share capital comprised:

	'000'	£'000	% of total Share capital
Ordinary shares of 15 pence each	92,006	13,801	100

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or of voting rights.

## Ordinary shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or in person in relation to resolutions to be passed at the general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the annual general meeting and in accordance with the current requirements of the Combined Code, will be published on the Company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods);
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's securities;
- pursuant to the Company's various share scheme arrangements.

The Company's articles of association may only be amended by a special resolution at a general meeting of the shareholders. Directors are reappointed by ordinary resolution at a general meeting of the shareholders. The Board can appoint a Director but anyone so appointed must be elected by an ordinary resolution at the next general meeting. Any Director who has held office for more than three years since his/her last appointment is obliged to offer himself/herself up for re-election at the next annual general meeting.

Authority will be sought at the 2010 Annual General Meeting for the Company to buy back up to approximately 10% of its issued share capital.

## Convertible bonds

Convertible bonds were issued during 2007 and are described in notes 21 and 23 of the Group Financial Statements.

Pending conversion, the Convertible bonds carry no votes at meetings of the Company. Ordinary shares in the Company issued on conversion will rank pari passu with the Company's existing issued share capital.

On a change of control of the Company, bondholders have an entitlement to exercise their conversion rights.

## Company share schemes

The Dana Petroleum plc Share Incentive Plan, holds 30,083 shares of the Company in trust for the benefit of employees of the Group. This includes 21,990 unreleased 'matching' and 'free' shares. The voting rights in relation to these unreleased shares are exercisable by the trustees.

# Report of the Directors continued

## Change of control

Other than as described above in relation to the Convertible bonds, and as further described below, the Company is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid.

The Group's USD 400 million debt facility with Bank of Scotland, is terminable by the bank upon a change of control event and provision of not less than 30 days notice; and any letters of credit outstanding under the Company's letter of credit facility with the Bank of Scotland are also similarly repayable to the bank but upon provision of 45 days notice by the bank. There are no agreements between the Company and its employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid, other than the agreements between the Company and the Executive Directors as detailed on page 53 of the Report on Directors' Remuneration.

## Significant interests

Major interests (i.e. those >3%) of which the Company has been notified and Directors' interests in the share capital of the Company are shown in the tables below.

## Substantial shareholdings

The Company has been notified of the following shareholdings of 3% or more in the issued share capital of the Company as at 26 March 2010:

	No. of shares	% of issued share capital
Schroder Investment Management	12,049,435	13.06
BlackRock Investment Management	6,092,139	6.60
Legal & General Investment Management	4,089,055	4.43
RCM/Allianz Global Investors	3,726,361	4.04

## Directors' interests in share capital

The beneficial interests of the current Directors and their families in the share capital of the Company were as follows:

	Ordinary Shares at 26.3.10 15p shares	Ordinary Shares at 31.12.09 15p shares	Ordinary Shares at 31.12.08 15p shares
C R Goodall	70,103	70,103	70,103
T P Cross	1,921,598*	1,776,656	1,044,893
D A MacFarlane	169,656**	131,851	111,554
S M Paton	39,998**	39,998	32,529
D I Rawlinson	38,440	38,440	38,440
P J Dayer	9,387	9,387	9,387
B Johnston	6,000	6,000	6,000

\* Includes 261 'Free Shares' and 410 'Matching Shares' subject to a three year holding period restriction pursuant to the Dana Share Incentive Plan (see page 57); 155,831 shares subject to a five year holding period restriction or until termination of employment pursuant to Deferred Share Payment A; and 141,479 shares subject to a five year holding period restriction, or until termination of employment pursuant to Deferred Share Payment B. These Deferred Share Payments were approved by shareholders at the Company's EGM on 26 September 2006. The five year holding period applicable to both Deferred Share Payment A and B expires on 26 September 2011.

\*\*Includes 261 'Free Shares' and 670 'Matching Shares' subject to a three year holding period restriction pursuant to the Dana Share Incentive Plan (see page 57).

## Composition of group

Details concerning the principal subsidiary undertakings are given in note 37 to the Company financial statements.

## Health, safety, the environment and the community

Dana considers health, safety and environmental management to be an integral part of its business. Dana has a formal Health, Safety and Environmental (HS&E) Policy which is brought to the attention of every employee and contractor working on Dana business. The policy aims to achieve first class HS&E performance by promoting a culture which encourages all employees, contractors and other stakeholders to contribute to its implementation. Responsibility for HS&E management begins with the Board of Directors and carries through to every employee and contractor engaged in Dana's activities.

In Dana operated activities, the Group makes appropriate resources and training available to reduce health and safety risks to employees and contractors to a level which is as low as reasonably practicable and also strives for a neutral or positive impact on the physical and socio-cultural environment of the regions in which Dana does business. Dana aims to meet relevant regulatory and legislative requirements as a minimum and to apply Dana's own responsible standards in those countries where appropriate laws and regulations are considered inadequate or do not exist. Details of Dana's HS&E performance during 2009 and developments in the Group's Corporate and Social policy are provided on pages 13 to 17 and 32 respectively.

Recognising that a significant proportion of Dana's activities are carried out by other companies, Dana also actively promotes and supports the application of equivalent HS&E standards by those suppliers, contractors and companies who operate on Dana's behalf. This is particularly true of developing countries, and, where the Company does not operate, Dana seeks to partner with large, well established upstream companies, with a track record of successfully working with host governments, and of promoting the highest standards of Corporate, Social and Environmental responsibility. Full details of the operators of all Dana's 2009 licence interests are provided on pages 108 to 110.

It is also the policy of the Group to consider the health and welfare of employees by maintaining a safe place and system of work as required by local legislation.

## Auditors

A resolution to re-appoint Ernst & Young LLP as auditors of the Company is to be proposed at the Annual General Meeting.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Business Review on pages 6 to 12. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 34 to 35. In addition, notes 2, 23 and 24 include the Group's objectives, policies and processes for managing its capital; and the risks associated with its financial instruments.

In February 2009, the Group secured a new three year USD 400 million revolving credit facility. This was subsequently syndicated to a group of eight banks later in the year (see note 20). At the end of 2009, the Group had net headroom of approximately USD 360 million under this facility a significant improvement on the projected year end position when the facility was originally secured. The facility is subject to compliance with a number of covenants typical for a facility of this nature and covenant compliance is tested on a six monthly basis. The Group's forecasts and projections, taking account of reasonably possible changes in the underlying assumptions, confirm that the Group can undertake its desired work programmes for the period 12 months from the current reporting date within the current bank facility, which has approximately two more years to maturity. A number of these planned activities have yet to be formally committed, providing further flexibility to the Group in managing its future cashflows.

From dialogue with members of the syndicate, the Group can reasonably assume that access to further credit, and/or a facility extension or renewal would be forthcoming on acceptable terms and no matters have been drawn to its attention to suggest otherwise. As a matter of course, the Group expects to review its mid term financing plans during 2010.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future and continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Interests in contracts

There have been no contracts or arrangements during the financial year in which a Director of the Company was materially interested and which were significant in relation to the Group's business.

## Creditors payment policy

The Company and Group policy is to agree payment terms with individual suppliers and to abide by these terms. The Company does not have any trade creditors.

## Statement of Directors' responsibilities in relation to the Group financial statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Acts and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable UK law and regulations, the Directors are also responsible for preparing a Directors' Report, a Directors' Remuneration Report and a Corporate Governance Report that comply with the laws and those regulations.

In addition, the Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

# Report of the Directors continued

## Statement of Directors' responsibilities in relation to the parent Company financial statements

The Directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Company financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Acts. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Responsibility statement

Each of the Directors listed on page 38 confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report and the Business Review include a fair review of the development and performance of the business and position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

## Directors' statement as to disclosure of information to auditors

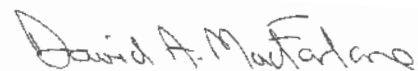
The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 38. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of the Directors' report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board by:



**Thomas P Cross**  
Chief Executive



**David A MacFarlane**  
Finance Director

26 March 2010

# Report on Directors' Remuneration

◆ This report has been prepared in accordance with Schedule 8 Quoted Companies: Directors' Remuneration Report Regulations 2008, (the "Regulations"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles and complied with the provisions of the 2008 Combined Code ("Combined Code") on Corporate Governance relating to Directors' remuneration. As required by the Regulations, an advisory resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be approved.



## Committee members (above right to left)

Ian Rawlinson (Remuneration Committee Chairman)  
Philip Dayer  
Brian Johnston

The auditors are required to report on the 'auditable' part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006 (as amended by the Regulations). The report is therefore divided into separate sections for audited and unaudited information.

## Responsibilities

The Remuneration Committee is responsible for:

- setting a senior remuneration strategy that ensures the most talented leaders are recruited, retained and motivated to deliver results;
- ensuring that the remuneration for the Chief Executive, Executive Directors and senior managers reflects both their individual performance and their contribution to the overall Company results;
- determining the terms of employment and remuneration for the Chief Executive, Executive Directors and senior managers, including recruitment and termination terms;
- approving the design and targets for any annual incentive schemes that include the Chief Executive, Executive Directors and senior managers;
- agreeing the design and targets, where applicable, of all share incentive plans requiring shareholder approval;
- assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans; and
- selecting and appointing the external advisors to the Committee.

The Committee members have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

## Part 2 of the Regulations – unaudited information

### Remuneration Committee

The Directors who were members of the Remuneration Committee (the "Committee") during the year are shown opposite.

In 2009, the Committee continued to engage PricewaterhouseCoopers LLP "PWC" (formerly Halliwell Consulting before acquisition by PWC) and received wholly independent advice on executive compensation. As in previous years, the Company continued to engage PWC for taxation services in Norway and Egypt and for the audit of Bow Valley statutory accounts for 2008.

The Committee is formally constituted with written terms of reference and its main responsibilities are detailed above.

The Committee met three times during 2009 with each Member attending all the meetings.

# Report on Directors' Remuneration continued

### Background to the Remuneration Committee's application of its policy

With the difficult global economic backdrop to 2009 and the banking industry turmoil, there has been much focus on executive pay as a potential causal factor in the banking crisis. This has had widespread coverage and has generated significant political pressure for change to the practices of the financial services industry in particular, and culminated in the publication of the Walker Review in November 2009, making a number of new recommendations of principle to be applied to remuneration in the financial services sector from the 2010 reporting year onwards. In addition, there have been a number of associated general pronouncements from shareholder bodies and institutional investors clarifying their expectations for remuneration in 2009 and a subsequent revised UK Corporate Governance Code has been issued.

In formulating the application of its policy for 2009 and future years, the Remuneration Committee has been cognisant of the evolving landscape in remuneration developments. In particular, and in direct response to the challenging global economic background, the Committee elected to;

- freeze Executive Director salaries and related benefits for 2009 at the 2008 levels, and
- to defer any new LTIP award originally scheduled for 2009.

As a consequence of these initiatives, Directors Remuneration for 2009 was 77% of that reported for the previous year.

The Remuneration Committee also believes that many of the principles proposed by the Walker Review, the new UK Corporate Governance Code and by institutional shareholders and representative bodies are already in operation or embedded within the Company's Remuneration framework, namely:

- the terms of reference for the Remuneration Committee include the responsibility for setting the over-arching parameters of incentive reward for all senior employees, including those who could have a material impact on the risk profile of the Group.
- the Remuneration Committee in the design of the annual bonus and LTIP have incorporated risk adjustment mechanisms to encourage consistent and sustainable levels of Company performance and ensured when selecting performance conditions and the level of challenge within those conditions for these incentive arrangements, that they support the long-term future of the Company. For example:
  - Executive Director bonus arrangements already reflect the concept of risk adjustment by deferral through the requirement to commit a minimum equivalent of 25% of any bonus award to buy shares which are required to be held for two years; and
  - to fully qualify for Level 1 LTIP awards, Executive Directors are required to purchase shares equivalent to a minimum of 100% of net salary, which have to be held for three years thereby making Executives significant long-term shareholders.
- the Company does not offer a defined benefit scheme for Executive Directors, but rather limits the cost of pension provision to Executives to 20% of salary per annum.

The Remuneration Committee has also asked PWC to assist the Committee in its desire to introduce a new executive incentive scheme which, once approved by shareholders, would replace the current LTIP arrangement. It is currently anticipated that this will remove the current TSR based performance measures, to be replaced by a future value creation basis of award. It is expected that this new arrangement will be placed before shareholders sometime during 2010 after an appropriate consultation process.

The Remuneration Committee also wish to re-affirm their commitment to openness and transparency in remuneration reporting as a means of continuing to build investor confidence. The Committee was pleased to note that this was recognized during the year, when Dana won the FTSE 250 category, for "best practice disclosure on remuneration policy and practice" at the ICSA Hermes Transparency in Governance Awards 2009.

In assessing the performance priorities set for annual bonuses, the Remuneration Committee takes into account the general performance of the Company and the prevailing economic environment. This section of the report summarises the performance of the Company taken into account when determining Executive remuneration for 2009.

The macro environment, the business background and the principal risks facing the Company are described in detail in the Business Review on pages 7 and 8. 2009 proved to be a challenging year for the Company, but nonetheless, a year with some significant achievements. Most notable amongst these successes were the acquisition of Bow Valley and the associated debt re-financing, which boosted the Company's production base and secured funding and cashflow for the Company for the next three years, during an environment when access to liquidity was extremely difficult.

In Exploration, a record 17 wells were drilled with some notable success in the UK, Norway and Morocco. Attractive new acreage was also won in both the UK and Norwegian licencing rounds, and commercially the Company also signed a binding Sale and Purchase Agreement to acquire an interest in offshore Guinea, an exciting new exploration area.

In Developments, significant milestones were achieved on the Babbage Development project, with the float-out and installation of the jacket and topsides in September 2009, and the tie-in work with West Sole has also now been completed. Good progress has also been made with both the Barbara-Phyllis and Western Isles projects which are planning for future sanction towards the end of 2010.

Overall, and from a value creation perspective, proven and probable reserves increased to a new record high of 223 mmbob at the end of 2009, representing a reserves replacement of approximately 304%. For much of 2009 however, the lower commodity price environment, and some disappointing production performance across the portfolio, allied to a number of unsuccessful exploration wells, depressed the Company's financial performance relative to previous years. As a consequence, the Remuneration Committee decided to restrict the 2009 annual bonus awards for Executives to 50% of the maximum bonus potential.

## Summary of remuneration philosophy

The remuneration philosophy is designed to encourage, reward and retain the Executives based on the following principles:

- shareholders' interests are best served by remuneration packages which have a large emphasis on performance related pay;
- emphasis on performance will encourage the Executives to focus on delivering the business strategy;
- the structure of the package will ensure fair reward for performance such that exceptional remuneration will only be justified where performance is exceptional; and
- Executives will be encouraged to build substantial personal shareholdings in the Company to further align their interests with those of shareholders.

## Remuneration policy 2009 & 2010

The Remuneration Committee applied its remuneration policy in 2009 taking into account the following factors:

- market conditions affecting the Company, and in particular the prevailing macro economic situation;
- the recruitment market in the Company's sector; and
- changing market practice and best practice corporate governance.

During 2010, the Remuneration Committee will seek to introduce a new long-term incentive scheme which supports the business strategy going forward and responds to the rapidly changing economic landscape. This scheme will take into account recent pronouncements from the FSA and other regulatory bodies on the use of more risk-based performance metrics to measure long-term performance.

The Remuneration Committee's policy during the year was to set the main elements of the remuneration package at the following quartiles in comparison to the Company's Comparator Group:

Base Salary	Annual Bonus Potential	Pension	Potential Total Short-Term Remuneration Available	Potential Annual Share Awards	Potential Total Compensation Value
Lower to Upper Quartile Revised to Lower Quartile to Median	Upper Quartile	Upper Quartile	Median to Upper Quartile	Upper Quartile	Median to Upper Quartile
The Remuneration Committee's policy was on appointment to the Board to provide a lower quartile salary which based on appropriate levels of individual and corporate performance would be increased to the upper quartile position with experience gained over time. In light of the current macro economic situation, the Remuneration Committee has changed its targeted salary policy for Executive Directors from upper quartile to median for 2009. The Committee's first step in moving towards this policy was to freeze 2009 salaries at 2008 levels.	Maximum bonus payouts are only earned by executives for achieving exceptional performance. The Remuneration Committee assessed that performance in 2009 justified a payout of 50% of the maximum bonus potential.	The Company avoids considerable cost and administrative burden by not running a corporate pension scheme. Instead it provides cash payments to Executives to supplement their personal pension arrangements.	The remuneration package will provide lower to median quartile total short-term remuneration unless bonus payments are earned by executives. Maximum bonus payments will only be earned for exceptional performance. In the current economic climate the Remuneration Committee will be mindful of the general performance of the Company when considering the level of any bonus in 2010.	The remuneration package will provide a lower quartile to median total compensation value unless executives earn their bonus payouts or satisfy the demanding performance conditions attached to their share incentives. Maximum share incentive payments will only occur for upper decile comparative performance.	

# Report on Directors' Remuneration continued

## Comparator Group 2009 & 2010

The constituents of the Company's Comparator Group ("CG") for benchmarking remuneration during 2009 were as follows:

A P Moller-Maersk A/S	Melrose Resources plc
BASF AG (Wintershall)	Nexen Inc.
BG Group plc	Occidental Petroleum Corp.
BP plc	Premier Oil plc
Cairn Energy plc	Petro-Canada
Canadian Natural Resources	Royal Dutch Shell plc
Centrica plc	RWE AG
Chevron Corporation	Soco International plc
ConocoPhillips	Statoil ASA
Eon AG.	Svenska
ExxonMobil	Talisman Energy Inc.
Etab Maurel et Prom	Total SA
Gaz de France	Tullow Oil plc
Hess Corporation	Venture Production plc*
JKX Oil & Gas plc	Woodside Petroleum Ltd
Lukoil	

\*During the year, Venture production plc was acquired by Centrica PLC.

Factors the Remuneration Committee took into account when selecting the CG included:

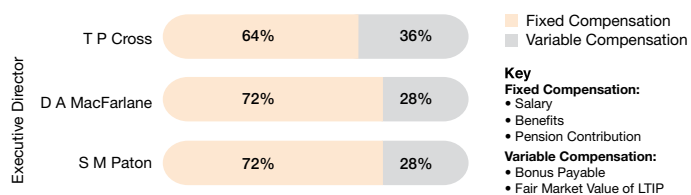
- the industry within which the Company operates, specifically taking into account both the international nature of the Company's business, its coventurers and competitors
- the UK listing environment of the Company; and
- the market capitalisation, turnover and number of countries in which the Company operates.

Throughout this report, references to quartiles are to quartiles in the CG. It is the Committee's current intention to use the same CG to benchmark the Company's Executive compensation in 2010 and as part of the CG for the total shareholder return ("TSR") performance condition attached to any further awards under the Dana Petroleum plc 2006 Long-Term Incentive Plan (the "LTIP").

In addition, for 2009, the Remuneration Committee used the constituents of the FTSE 250 as a secondary CG to provide a wider market view on remuneration levels and trends. The FTSE 250 constituents form the remaining part of the CG for the TSR performance condition attached to awards under the LTIP. It is the Committee's current intention to adopt the same approach for 2010.

## Balance between fixed & variable performance based compensation

The application of the Remuneration Committee's policy summarised on pages 49 and 50 in relation to the balance between fixed and variable performance based compensation for each Executive Director is shown below for the year ended 31 December 2009.



The balance of the package has been distorted by the decision not to make any LTIP awards during 2009 for the reasons stated elsewhere which has resulted in the fixed elements of the remuneration package representing a larger proportion of the whole.

## Elements of Executive Directors' remuneration

### Policy 2009: lower quartile to median quartile

The table below sets out the salaries for 2009

Name	2009 Salary	Median 2009 Salary in Comparator Group
T P Cross	£687,000	£678,000
D A MacFarlane	£310,000	£375,000
S M Paton	£290,000	£274,000

### General

The Remuneration Committee, mindful of the need in the prevailing economic climate to exercise prudence when increasing the fixed costs of the Company, has therefore changed its targeted salary policy for experienced Executive Directors from upper quartile to median for 2009. The Committee's first step in moving towards this policy was to freeze 2009 salaries at 2008 levels.

When determining the salary of the Executive Directors the Committee takes into consideration:

- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, in particular the levels of base salary at those comparable companies within the FTSE Oil and Gas Producers sector and the CG;
- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities; and
- pay and conditions throughout the Company.

## Annual bonus potential

### Policy 2009 & 2010: upper quartile

Bonuses are typically assessed based on the level of the Company's performance against the following financial and operational priorities:

- Reserves Replacement
- Execution of Planned Exploration Drilling Programme
- Delivery of Development Projects
- Delivery and Completion of New Commercial Transactions
- HS&E Performance
- Financial Performance
- Production Growth

The structure of any bonuses paid is as follows:

- an individual is free to elect for up to 100% of any bonus paid to be paid in shares which have to be retained for 24 months; subject to
  - any bonus over 100% of salary must be paid in shares which have to be retained for 24 months; and
  - in all cases, a minimum of 25% of any bonus earned must be committed to shares which have to be retained for 24 months, with any balance paid in cash.
- in determining the number of shares to be awarded the Remuneration Committee may exercise its discretion to use the average share price over the relevant period.

The Company's annual bonus scheme caps the maximum bonus potential at 100% of salary for the Finance Director and the Technical and Commercial Director, with a cap of 150% in respect of the Chief Executive. The same maximum bonus potential will apply for 2010.

Bonus payments are not pensionable.

The Remuneration Committee considered the levels of bonus earned in respect of 2009 in light of the following:

- the Company's long-term ROCE performance (see LTIP section);
- the Company's comparative TSR performance (see LTIP section);
- the achievements of the business over the year as outlined above; and
- the prevailing economic background.

Considering the above, the Remuneration Committee assessed that an award of 50% of the maximum bonus potential was appropriate when judging by the achievements of the Executive team against the above priorities and when looking at a broader picture of the Company's performance over the period.

The general targets for the annual bonus plan are reviewed and agreed by the Remuneration Committee each year to ensure that they are appropriate to the current position of the Company. The Committee is in no doubt that in the current economic environment, achieving substantial progress in these priority areas will continue to be extremely challenging.

Non-Executive Directors do not participate in any bonus arrangements.

## Potential annual share awards

### Policy 2009 & 2010: upper quartile

The Remuneration Committee's policy is to provide annual share grants to Executives at the upper quartile level compared to the CG. Ongoing share incentives, excluding all employee plans, are provided to the Executive Directors solely through the LTIP. The Remuneration Committee believes that share awards under the LTIP enable the Company to provide a competitive incentive and retention tool which is also cost effective in respect of both shareholder dilution and income statement expense. Furthermore, the underlying performance conditions attached to LTIP awards ensures that the Company's comparative TSR performance against the CG is at least at the upper decile before Executives will receive the full benefit of their share incentives. This structure demonstrates the Remuneration Committee's desire to correlate incentive arrangements with the achievement of substantial performance.

Recognising the challenging economic backdrop, the Remuneration Committee elected to defer the LTIP award scheduled for 2009.

The following table sets out the level of release of current subsisting LTIP awards if the Company's performance measured as at 31 December 2009 continued until the end of the relevant performance period.

# Report on Directors' Remuneration continued

## Potential annual share awards continued

LTIP Grant	ROCE Condition	Company TSR Ranking Against CG	Percentage of Award Released if Performance Measured as at 31 December 2009 continued to the end of the relevant Performance Period
2006 LTIP Grant	Satisfied	54 of 256 companies	68.0%*
2007 LTIP Grant	Satisfied	33 of 255 companies	93.9%
2008 LTIP Grant	Satisfied	115 of 271 companies	40.9%

\* Represents actual award on 1 February 2010 vesting date

The operation of the LTIP and the main terms and conditions are set out in the following table:

Feature	Terms & Conditions
Maximum global limit p.a.	Global limit under all elements of the LTIP is 400% of salary p.a.
Operation of the LTIP	Maximum Level 1 Grant – is 400% of salary less the Level 2 Grant proposed by the Remuneration Committee provided that to receive a Level 1 Grant an Executive must have purchased shares equivalent to 50% of the proposed award level i.e. for an Executive to qualify for a 200% of salary grant under Level 1 of the LTIP he would have to purchase shares equivalent to 100% of his net salary. Maximum Level 2 Grant – is 200% of salary. Maximum Level 3 Grant – is 100% of salary. Level 3 grants may be made to senior managers within the Group and cannot be made to Executive Directors of the Company.
Performance Conditions	Threshold Condition – no part of the award will be capable of release unless the Company's average annual ROCE over the three year performance period is at or above 10% p.a. Main Performance Condition – once the Threshold Condition has been satisfied the release of the award will be subject to the Company's comparative TSR performance compared to the CG. 30% of the award will be released for median performance, 65% (Level 3 100%) for upper quartile performance with full release only for upper decile performance. The CG for the purposes of the TSR performance condition consists of the constituents of the FTSE 250 and the members of the CG set out on page 50 and those used for benchmarking remuneration.
Shareholding Guideline	The Remuneration Committee introduced a Shareholding Guideline in conjunction with the new LTIP to encourage a minimum level of shareholding amongst all the Executive Directors, in order to align their interests with those of shareholders. The shareholding to be established over a five year period as a percentage of salary is 400% for the Chief Executive and 200% for the other Executive Directors. Their 2009 year end shareholding as a percentage of 2009 salary is 3,041% for the Chief Executive, 500% for the Finance Director and 162% for the Technical & Commercial Director.

### Basis of performance conditions: selection & measurement

ROCE was selected as one of the performance conditions for the awards by the Remuneration Committee because:

- ROCE measures the efficiency with which capital is employed by the management of the Company and therefore is much less vulnerable to peaks and troughs in revenue;
- ROCE helps to ensure the most effective allocation of capital investment within the business; and
- ROCE also helps to ensure that any investments by the Company are effectively incorporated and deliver the required level of return on the capital used to make them. This will provide assurance that the Company's investment strategy will be value driven rather than earnings driven which is appropriate for an exploration-led company.

Comparative TSR was selected as one of the performance conditions for the awards by the Remuneration Committee as it ensures that the Executives have delivered competitive returns with respect to their peers over the measurement period before being entitled to receive any of their awards irrespective of general market conditions.

The Remuneration Committee determines whether the performance

conditions for share awards are satisfied. Where the performance requirements are based on ROCE, the Committee will use the principles behind the audited figures disclosed in the Company's financial statements, and may take advice from independent advisors as to whether any adjustments are required to ensure consistency in accordance with the terms of the performance conditions. Where the performance measure is TSR, PWC, the Remuneration Committee's advisors, shall calculate the TSR in accordance with the rules of the LTIP and confirm these figures prior to the release of any award.

As previously stated, the Remuneration Committee have instructed PWC to assist the Committee in formulating a new long term incentive plan for implementation during 2010 to be focused on value creation and a structure that supports the Company's business strategy going forward, while reflecting the wider economic environment and regulatory developments.

### Dilution

In accordance with the Association of British Insurers ("ABI") guidelines, the Company can issue a maximum of 10% of its issued share capital in a rolling ten year period to employees under all its share plans. In addition, of this 10% the Company can only issue 5% to satisfy awards under discretionary or Executive plans. The Company operates all its share plans within these guidelines.

## Benefits in kind

### Policy 2009 & 2010

The Company provides a cash benefits allowance in lieu of normal benefits in kind for Executive Directors of this level in a company of this size and complexity e.g. company car in addition to life assurance cover, private health care and permanent health insurance. This cash benefit allowance is excluded from the calculation of any other benefit provided by the Company.

## Pension

### Policy 2009 & 2010: upper quartile

The Company does not operate a pension scheme for Executive Directors but does, at the Directors' option, contribute to the personal pension plans of each Executive Director, or pays cash in lieu of such contributions up to 20% of salary. Directors' contributions are paid in advance of the pension year which starts in April each year. Due to the freeze on salaries, pension contributions remained at 2008 levels.

## Executive Directors' contracts

Details of the service contracts of the Executive Directors of the Company are as follows:

Name	Company notice period	Contract date	Unexpired term of contract	Potential termination payment
T P Cross	12 months	1 May 1997	Rolling contract	12 months salary and benefits
D A MacFarlane	6 months	1 November 2003	Rolling contract	12 months salary and benefits
S M Paton	6 months	29 May 2006	Rolling contract	12 months salary and benefits

All Executive Directors' contracts are rolling, and therefore will continue unless terminated by the written notice set out above. In the event of the termination of an Executive's contract, salary and benefits will be payable during the notice period (there will, however, be no automatic entitlement to bonus payments or share incentive grants during the period of notice other than where normal good leaver provisions apply). The Remuneration Committee will ensure that there have been no unjustified payments for performance failure on an Executive Director's termination of employment. There are no special provisions in the contracts of employment extending notice periods on the liquidation of the Company or cessation of employment. The maximum notice period on a change of control is 12 months.

Executive Directors have an obligation to inform the Board and specifically the Remuneration Committee of any non-executive positions held or being contemplated and of the associated remuneration package. The Remuneration Committee will consider the merits of each case and carefully consider the work and time commitment required to fulfill the non-executive duties and the potential benefit to the Company, and then determine whether the remuneration should be retained by the Executive or passed over to the Company. Mr T P Cross received and retained fees of £36,000 in 2009 (2008: £36,000) through his position as Non-Executive Chairman of AUPEC Limited, the global advisory group on energy policy and economics, a position he has held since 1998. Mr T P Cross is a Non-Executive Director of The Parkmead Group plc, for which he received and retained fees of £35,000 in 2009 (2008: £35,000), a position he has held since 2006.

## Non-Executive Directors' fee level

### Policy 2009 & 2010: Median

The remuneration of the Non-Executive Directors is determined by the Board. Assistance is also available from the Company's remuneration advisors.

The Non-Executive Director fees are set out in the following table:

Name	2009 £'000	2008 £'000
C R Goodall	120	100
D I Rawlinson	60	50
P J Dayer	60	50
B Johnston (appointed 24 April 2008)	60	34
A M Pelham Burn (retired 24 July 2008)	-	29

The levels of fees for the Non-Executive Directors are set taking into account the following factors:

- the role and responsibility of the Non-Executive Director;
- the experience of the Non-Executive Director;
- comparative levels using the same comparators as are used for setting the salary levels for the Executive Directors

Details of the current Non-Executive Directors' appointment dates are:

Name	Effective Date of Letter of Appointment or Last Renewal
C R Goodall	14 June 2009
D I Rawlinson	31 March 2010
P J Dayer	16 March 2010
B Johnston	24 April 2009

Non-Executive Directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company. The Non-Executive Directors do not have service contracts. Letters of Appointment provide for an initial period of one year and are renewable annually at the Company's discretion.

Mr C R Goodall and Mr D I Rawlinson in accordance with the Combined Code and the Company's Articles of Association formally retire by rotation, and being eligible, offer themselves for re-election. Biographical details of all Directors can be found on page 38.

# Report on Directors' Remuneration continued

## All employee share arrangements

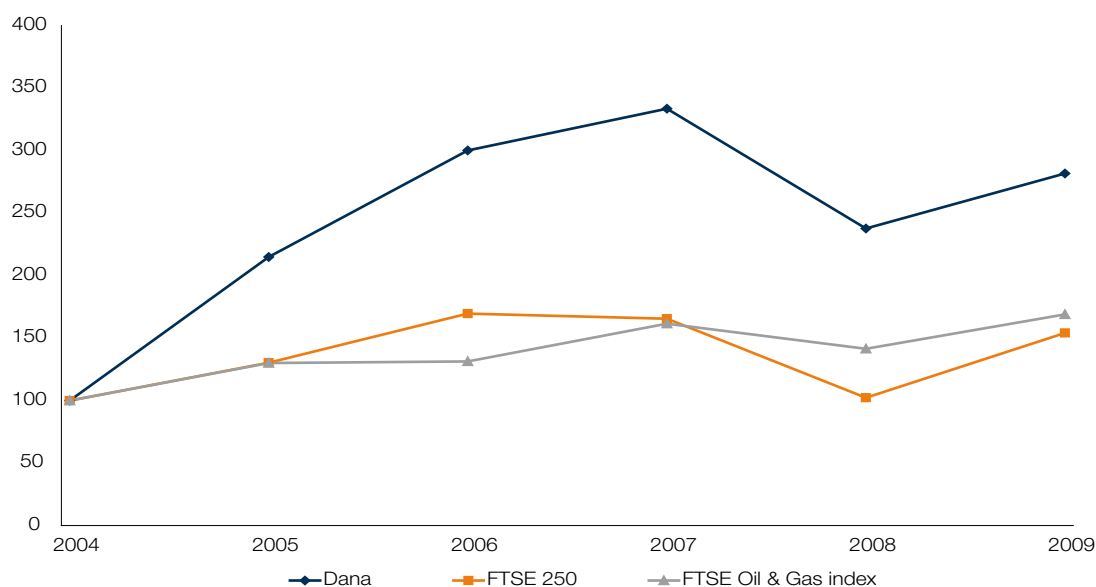
The Company operates the following employee share incentive arrangements:

Name	Status	Eligibility	Main Features
Share Incentive Plan (Inland Revenue approved)	Operated in 2009 and will be operated in 2010.	All UK employees of the Company.	The Plan provides employees with the opportunity of purchasing £1,500 of partnership shares a year out of pre-tax salary and providing additional matching shares with a maximum matching ratio of 2:1. These matching shares will normally be released three years after they have been awarded provided that the associated shares purchased by the employee have been retained and provided the employee is still employed by a Group company at this time. For 2009 the matching ratio was set at two matching shares for every one employee purchased share. It is the current intention that the same offer under the SIP will be made in 2010. There are currently 31 UK employees participating in the SIP.
Sharesave Scheme	The Plan is in the run-off stage with the final award vesting in March 2010. It is not intended to operate the Scheme in the future.	All employees of the Company excluding the Executive Directors.	Options are granted over Company shares at a discount of up to 20% to the market value on the date of grant, which subject to the satisfaction of conditions can be exercised after either three or five years.

## Dana 5 Year Total Shareholder Return

### Total Shareholder Return: performance graph

The graph below shows the Company's performance, measured by TSR, compared with the constituents of the FTSE 250 and the FTSE All Share Oil and Gas Producers Index over the last five years. The Index is the most relevant to compare the Company's performance against its peers. The FTSE 250 Index has been selected to provide a broader comparator of the Company's performance and is the main Index in which the Company's shares are included.



### Part 3 of the Regulations – audited information

The remuneration of each Director, excluding long-term, share-based incentive awards and pensions, during the year ended 31 December 2009 compared with 2008 is set out in the table below:

Directors' Remuneration	Fees/ basic salary £'000	Bonus in cash £'000	Bonus in shares <sup>(1)</sup> £'000	Benefits in kind <sup>(2)</sup> £'000	2009 Total £'000	2008 Total £'000
T P Cross	687	515	–	76	1,278	1,794
D A MacFarlane	310	155	–	34	499	654
S M Paton	290	145	–	32	467	612
	1,287	815	–	142	2,244	3,060
Non-Executive						
C R Goodall	120	–	–	–	120	100
D I Rawlinson	60	–	–	–	60	50
P J Dayer	60	–	–	–	60	50
B Johnston (appointed 24 April 2008)	60	–	–	–	60	34
A M Pelham Burn (retired 24 July 2008)	–	–	–	–	–	29
	300	–	–	–	300	263
<b>Total Remuneration</b>	<b>1,587</b>	<b>815</b>	<b>–</b>	<b>142</b>	<b>2,544</b>	<b>3,323</b>

#### Notes

<sup>(1)</sup> The Unaudited Section of the Report sets out the operation of the Bonus Plan. Based on an average share price for 2009 of £12.37, the minimum share purchase commitment requirement for the Executive Directors was 10,412 (Cross), 3,132 (MacFarlane) and 2,930 (Paton). These shares require to be held for two years. During 2009, the Executive Directors increased their shareholdings by 731,763, 20,297 and 7,469 respectively, adequately satisfying the share commitment requirement.

<sup>(2)</sup> Benefits typically comprise cash allowances in lieu of company car in addition to life assurance cover, private health care and permanent health insurance, but exclude pension benefits which are detailed below.

Executive Directors' Pensions	2009 Total £'000	2008 Total £'000
T P Cross	137	137
D A MacFarlane	62	62
S M Paton	58	58
	<b>257</b>	<b>257</b>

# Report on Directors' Remuneration continued

## Dana Petroleum plc 2006 LTIP

The LTIP was approved by shareholders on 26 September 2006. Awards under the LTIP are set out in the table below:

Date of Grant	LTIP Awards to 1.01.09 '000	Granted '000	Lapsed '000	LTIP Awards held at 31.12.09 '000	Number of Associated Executive Shares held at 31.12.09 '000	Award Price (p)	Date of Release
T P Cross							
01.02.07	213	–	–	213	31	1,020	01.02.10
14.11.07	185	–	–	185	27	1,273	14.11.10
09.10.08	295	–	–	295	43	932	09.10.11
	<b>693</b>	<b>–</b>	<b>–</b>	<b>693</b>	<b>101</b>		
D A MacFarlane							
01.02.07	56	–	–	56	8	1,020	01.02.10
14.11.07	42	–	–	42	6	1,273	14.11.10
09.10.08	67	–	–	67	10	932	09.10.11
	<b>165</b>	<b>–</b>	<b>–</b>	<b>165</b>	<b>24</b>		
S M Paton							
01.02.07	41	–	–	41	6	1,020	01.02.10
14.11.07	35	–	–	35	5	1,273	14.11.10
09.10.08	62	–	–	62	9	932	09.10.11
	<b>138</b>	<b>–</b>	<b>–</b>	<b>138</b>	<b>20</b>		

## Details of Directors' interests in shares held under option

The Dana Petroleum 1999 Share Option Scheme was closed to new awards in December 2004.

Date of Grant	Options Granted to 01.01.09 '000	Lapsed '000	Exercised '000	Options held at 31.12.09 '000	Exercise price (p)	Exercisable from	Expiry Date	Plan
T P Cross								
	302	–	302	–	236.25	30.12.02	30.12.09	A
	429	–	429	–	206.25	27.07.03	26.07.10	A
	617	–	–	617	413.50	15.12.07	14.12.14	A
	<b>1,348</b>	<b>–</b>	<b>731</b>	<b>617</b>				
D A MacFarlane								
	120	–	20	100	413.50	15.12.07	14.12.14	A
	<b>120</b>	<b>–</b>	<b>20</b>	<b>100</b>				
S M Paton								
	3	–	3	–	192.00	14.01.04	01.03.09	B
	<b>3</b>	<b>–</b>	<b>3</b>	<b>–</b>				

Plan A – Dana Petroleum 1999 Share Option Scheme

Plan B – Dana Petroleum Share Save Scheme

1 All options granted under Plan A have fully satisfied the scheme's performance conditions.

2 At 31 December 2009, in total, the Company has outstanding options granted to Executive Directors and employees to subscribe for 735,891 ordinary shares, which are exercisable up to 2014, at a price of 413.50p.

3 At 31 December 2009, under the Share Save Scheme, the Company has outstanding options granted to employees to subscribe for 6,926 shares, which are exercisable up to 2010, at a price of 334.00p.

4 Directors exercised options in various tranches during the year. The corresponding weighted average exercise price and associated weighted average share price at the date of exercise for share options exercised during 2009 are shown in note 25 Share based payments. The aggregate potential net taxable gain made by Directors in relation to the share options exercised was £7,250,000.

## Dana Petroleum plc Share Incentive Plan

Partnership Shares are ordinary shares of the Company purchased by the Executive Directors. Matching and Free Shares are ordinary shares which will be released on the third anniversary of their date of award subject to continued employment and in the case of Matching Shares also to the retention of the associated Partnership Shares.

	Year	Number of Partnership Shares Purchased	Number of Matching Shares Awarded	Number of Free Shares Awarded	Purchase/Award Date	Purchase/Award Price per Share
T P Cross	2007	–	–	261	23.07.07	£11.47
	2008	106	212	–	22.08.08	£14.17
	2009	99	198	–	24.08.09	£15.15
		<b>205</b>	<b>410</b>	<b>261</b>		
D A MacFarlane	2007	130	260	261	23.07.07	£11.47
	2008	106	212	–	22.08.08	£14.17
	2009	99	198	–	24.08.09	£15.15
		<b>335</b>	<b>670</b>	<b>261</b>		
S M Paton	2007	130	260	261	23.07.07	£11.47
	2008	106	212	–	22.08.08	£14.17
	2009	99	198	–	24.08.09	£15.15
		<b>335</b>	<b>670</b>	<b>261</b>		

Prior to his appointment to the Board, Mr S M Paton participated in the Phantom option incentive arrangements provided for senior management, details of which are provided in note 25 to the Group financial statements. At 31 December 2009, Mr S M Paton continued to hold an award of 40,000 Phantom options, exercisable at an exercise price of 645.50p. Mr S M Paton did not exercise any Phantom options during the year.

The market price of the Company's shares on 31 December 2009 was 1,176 pence per share and the high and low share prices during the year were 1,533p and 865.5p respectively.

The agreements covering Directors' options and LTIP awards are available for inspection at the Company's headquarters at 17 Carden Place, Aberdeen, AB10 1UR. The Company's Register of Directors' Interests (which is also open to inspection) contains full details of the Directors' shareholdings and options to subscribe.

Signed on behalf of the Board by:



**D Ian Rawlinson**

Chairman of the Remuneration Committee

26 March 2010