

Financial review



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With the difficult global economic backdrop, and the lower commodity price environment, 2009 proved to be a challenging year with management of the Group's cash and funding position becoming the key priority for the year, particularly in view of the Group's relatively high level of operational commitments entering 2009.

The 2009 capital programme was subsequently delivered below original budget expectation and a successful refinancing exercise was undertaken around the Bow Valley acquisition. This was supplemented by a modest and well-supported share placing and meant the key priorities for the year were firmly achieved. Dana closed the year with net bank debt of USD 40 million and headroom of USD 360 million in a new three year revolving credit facility.

Some production underperformance from certain assets within the portfolio, together with the low oil and gas price environment for much of 2009 and a number of unsuccessful exploration wells, served to depress the Group's financial performance relative to previous years.

Revenue

Annualised average, working interest production for the year was 38,653 boepd (2008: 39,365 boepd), with 78% delivered from Europe (2008: 71%). Liquids accounted for 81% of total production (2008: 74%) with 19% from gas (2008: 26%).

The Group realised an average price of \$60.57 per barrel of crude sold during the year (2008: \$94.39 per bbl) and a gas price of 31.3p per therm (2008: 46.5p per therm). This compares to the average Brent price in the period of \$61.67 per bbl (2008: \$98.90 per bbl) and an average NBP price of 30.8p per therm (2008: 57.5p per therm). Overall, the Group realised revenue per boe produced of \$44.11 (2008: \$66.58 per boe). In addition, the Group benefited from the net effect of the movement in crude inventories over the year reflecting a net under-lifted production position, equivalent to a further \$1.73 per boe in revenue terms.

Consequently, due to a combination of broadly flat production and the lower commodity price environment, revenue declined by 23% to £397.3 million (2008: £518.0 million).

Gross profit

Gross profit for the year was £122.8 million (2008: £232.2 million). Excluding a credit of £15.6 million (2008: charge of £24.7 million) for the effect of the movement in production inventories over the year, opex costs were higher than expected at £12.49 per boe (2008: £10.63 per boe). This included some £16.3 million or £1.16 per boe expended on workovers and well intervention work during the year, and approximately £3.9 million or

£0.27 per boe was opex incurred whilst the Johnston field was shut in. DD&A was also higher than expected, at £8.07 per boe (2008: £7.49 per boe), with the increment from the interim market guidance of £7.50 per boe due entirely to the impairment of the carrying value of the Anglia field. This followed a disappointing 2009 workover campaign and a subsequent downgrading of field reserves.

Profit for the year

Administrative expenses at £0.72 per boe (2008: £0.97 per boe) were modestly below expectations with the Bow Valley acquisition having a minimal impact on this metric.

The net costs of unsuccessful exploration and evaluation activity during the year was £48.3 million (2008: £34.0 million). In quantum terms this equates to one third of exploration spend during the year. This spend principally includes pre-licence expenditure relating to the UK & Norwegian licensing rounds; the costs of wells and licences that are now considered unlikely to deliver future commercial reserves, and the costs of licences expired or relinquished or expected to be relinquished in the future. In particular the Bouanane, Trolla, North Qarun, North Ghara and South Feiran licences were deemed unsuccessful.

The impact of the exploration write-offs however, was partially mitigated by an exchange gain realised of £8.0 million due to the movement in the GBP:USD exchange rate during the latter part of 2009.

Net financing costs of £15.8 million (2008: £11.9 million) were in line with expectations reflecting the market equivalent interest rate cost of the Convertible bond issue together with the cost of the new bank debt drawn.

Consequently, profit before tax for the year fell by 70% to £56.4 million (2008: £191.4 million).

The effective tax rate for the year at 56% (2008: 49.2%) was at the upper end of expectations mainly due to exploration write-downs which did not attract any tax relief. On an ongoing basis, we continue to expect the Group's effective rate of tax to be in the 54-56% range given the underlying portfolio mix.

Profit for the year after allowing for the Group's post tax share of the losses from associates, was £22.6 million (2008: £96.2 million). This resulted in earnings per share of 25.19p (2008: 111.13p).



Balance sheet

The acquisition of Bow Valley was completed on 30 April 2009 and the results of the acquisition have been consolidated from that date, using the purchase method of accounting with fair values attributed to identifiable assets and liabilities, and consideration paid in excess of fair value recorded as goodwill. £4.4 million has been recorded as goodwill on this acquisition. A total consideration of £27.8 million was paid for Bow Valley and net of £3.1 million underlying cash acquired, represented a net outlay on the acquisition of £24.7 million.

Net capital expenditure on the organic work programme during the year was £236.2 million (2008: £157.4 million) with £91.5 million invested on production and development projects and £144.7 million on the 2009 exploration and appraisal programme.

In February 2009, to facilitate the Bow Valley acquisition and as a broader corporate refinancing initiative, the Group agreed a new three-year USD 400 million revolving credit facility with the Bank of Scotland. To complete the acquisition of Bow Valley in April 2009, the Company re-paid £119 million of Bow Valley debt, utilising USD 173 million under the new Dana facility (approximately £116.2 million). During the remainder of the year a further £21.4 million was drawn and £37.4 million of repayments made. Together with an £8.7 million exchange gain, the equivalent value of the USD denominated bank debt at the year end was £91.5 million. The Group has subsequently repaid a further £27.8 million of bank debt since the end of the reporting period.

From a year end working capital perspective, receivables increased due to the six new fields either acquired or brought onstream in 2009

and the significantly improved end 2009 oil price relative to 12 months earlier. This was somewhat mitigated however, by a reduction in current tax provisions, reflecting the lower level of profitability in 2009 compared to 2008.

Cash flow

Cash generated from Group operations in 2009 reduced 52% to £164.7 million (2008: £345.0 million). Tax payments of £21.5 million were less than the previous year, in line with the lower trading profits and as a result of the tax benefit arising from significant UK capital spend. Net interest expense was £6.1 million.

This facilitated total investment activity during the year of £259.6 million (2008: £173.4 million), including £236.2 million (2008: £157.4 million) on the Group's portfolio of upstream assets, and was supplemented by net inflows from financing activity of £32.5 million (2008 outflow: £82.5 million) arising from the Group's re-financing activity and the 5% share placing undertaken in May 2009. The Group closed the year with cash resources of £67.6 million and total net debt, including the convertible bond of £143.8 million (2008 net cash: £43.2 million), and gearing of approximately 22%.

This leaves significant net headroom on the current bank facility of approximately USD 360 million to fund the 2010 work programme and future investment opportunities.

Risk management

Dana was unhedged throughout 2009. The Board will continue to regularly review its approach to managing commodity price, interest rate and currency fluctuations in the context of the Group's ongoing obligations and future capital commitments.

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