

Group Financial Statements 2009

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Group Report of the Auditors

Independent auditor's report to the members of Dana Petroleum plc

We have audited the Group financial statements of Dana Petroleum plc for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 45, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of; whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 40 to 42 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, on page 45, in relation to going concern; and;
- the part of the Corporate Governance Statement on pages 40 to 42 relating to company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matters

We have reported separately on the parent Company financial statements of Dana Petroleum plc for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

**Douglas Nisbet (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor**

Aberdeen

26 March 2010

Group Income Statement for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Revenue	3	397,267	517,979
Cost of Sales		(274,504)	(285,759)
Gross Profit		122,763	232,220
Exploration & Evaluation: Gain	5	757	–
Exploration & Evaluation: Expense	5	(49,095)	(33,992)
Administrative Expenses		(10,225)	(13,986)
Foreign Exchange		7,994	19,062
Profit on Ordinary Activities before Interest and Taxation	5	72,194	203,304
Interest Income	3	1,806	5,505
Finance Costs	7	(17,571)	(17,403)
Profit on Ordinary Activities before Taxation		56,429	191,406
Taxation	9	(31,343)	(94,248)
Profit for the Financial Year before Share of Post Tax Losses of the Associate		25,086	97,158
Share of Post Tax Losses of the Associate	13	(2,512)	(923)
Profit for the Financial Year Attributable to the Equity Holders of the Company		22,574	96,235
Earnings per Share – Basic	10	25.19p	111.13p
Earnings per Share – Diluted	10	24.66p	104.99p

The results above are entirely derived from continuing operations.

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Group Statement of Comprehensive Income for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Profit for the Financial Year		22,574	96,235
Currency Translation Adjustments		(25,699)	76,557
Fair Value Movements on Available-for-Sale Financial Assets	13	1,733	(11,151)
Taxation thereon	9	(487)	3,091
Associate:			
Fair Value of Net Assets on Initial Recognition	13	–	6,843
Net Asset Movement Recognised Directly in Equity	13	477	351
Other Comprehensive (Loss)/Income for the Year, Net of Tax		(23,976)	75,691
Total Comprehensive (Loss)/Income for the Year, Net of Tax Attributable to Equity Holders of the Parent		(1,402)	171,926

Group Balance Sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Non-Current Assets			
Intangible Assets	11	493,269	387,892
Property, Plant and Equipment	12	607,478	520,084
Deferred PRT/NPI	9	7,595	8,085
Investments	13	50,395	41,131
		1,158,737	957,192
Current Assets			
Inventories	14	15,640	16,105
Trade and Other Receivables	15	116,078	74,398
Derivative Financial Instruments	16	–	1,149
Cash and Cash Equivalents	17	67,550	158,948
		199,268	250,600
Total Assets		1,358,005	1,207,792
Current Liabilities			
Trade and Other Payables	18	105,903	111,883
Current Tax	19	11,022	39,810
		116,925	151,693
Non-current Liabilities			
Trade and Other Payables	18	4,054	4,755
Borrowings and Financial Liabilities	20	211,304	115,767
Provision for Deferred Taxation	9	265,206	245,240
Provision for Liabilities and Charges	22	103,408	94,135
		583,972	459,897
Net Assets		657,108	596,202
Equity Attributable to Equity Holders			
Called-up Share Capital	24	13,801	13,034
Share Premium		136,519	81,066
Other Reserves		128,949	127,703
Cumulative Translation Reserve		58,710	84,409
Retained Earnings		319,129	289,990
Total Equity		657,108	596,202

The financial statements were approved by the Board of Directors on 26 March 2010 and signed on its behalf by:



Thomas P Cross
Director



David A MacFarlane
Director

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Group Statement of Changes in Equity for the year ended 31 December 2009

(All Figures are in £'000)

	Share Capital	Share Premium	Other Reserves	Cumulative Translation Reserve	Retained Earnings	Total Equity
Equity at 1 January 2008	12,907	79,369	135,763	7,852	183,470	419,361
Profit for the Financial Year	–	–	–	–	96,235	96,235
Other Comprehensive (Loss)/Income	–	–	(8,060)	76,557	7,194	75,691
Total Comprehensive (Loss)/Income	–	–	(8,060)	76,557	103,429	171,926
Employee Share Scheme Credits	–	–	–	–	3,015	3,015
Taxation thereon	–	–	–	–	76	76
New Shares Issued	127	1,697	–	–	–	1,824
Equity at 31 December 2008	13,034	81,066	127,703	84,409	289,990	596,202
Profit for the Financial Year	–	–	–	–	22,574	22,574
Other Comprehensive Income/(Loss)	–	–	1,246	(25,699)	477	(23,976)
Total Comprehensive Income/(Loss)	–	–	1,246	(25,699)	23,051	(1,402)
Employee Share Scheme Credits	–	–	–	–	3,572	3,572
Taxation thereon	–	–	–	–	2,516	2,516
New Shares Issued	767	55,453	–	–	–	56,220
Equity at 31 December 2009 (note 26)	13,801	136,519	128,949	58,710	319,129	657,108

At 31 December 2009 equity attributable to equity holders of the parent company is £657,108,000 (2008: £596,202,000).

Group Cash Flow Statement for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Operating Activities			
Cash Generated from Operations	27	164,727	345,044
Terminated Rig Contract Payment		(4,888)	–
Taxation Paid		(21,518)	(76,123)
Interest Received		1,806	5,505
Interest Paid		(7,932)	(3,533)
Net Cash from Operating Activities		132,195	270,893
Investing Activities			
Expenditure on Intangible and Property, Plant & Equipment Assets		(236,195)	(157,372)
Receipts on Sale of Asset Held-for-Sale		20,505	–
Payments to Acquire Shares in Associate Undertaking		–	(5,643)
Payments to Acquire Subsidiaries		(24,662)	–
Payments to Settle Working Capital Balances on Acquired Subsidiary		(19,268)	–
Payments to Acquire Available-for-Sale Assets		–	(10,336)
Net Cash Invested in Investing Activities		(259,620)	(173,351)
Financing Activities			
Issue of Ordinary Share Capital (net of costs)		55,306	1,824
Drawdown of Borrowings		137,647	–
Repayment of Borrowings		(156,332)	(80,200)
Interest Paid on Convertible Bonds		(4,104)	(4,102)
Net Cash from/(used in) Financing Activities		32,517	(82,478)
Currency Translation Differences		3,510	27,924
Net (Decrease)/Increase in Cash and Cash Equivalents		(91,398)	42,988
Cash and Cash Equivalents at the Beginning of the Year		158,948	115,960
Cash and Cash Equivalents at the End of the Year	17	67,550	158,948

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01 Authorisation of financial statements and statement of compliance with IFRS

The Group's financial statements of Dana Petroleum plc for the year ended 31 December 2009 were authorised for issue by the Board of Directors on 26 March 2010 and the balance sheet was signed on the Board's behalf by Thomas P Cross and David A MacFarlane. Dana Petroleum plc is a public limited company incorporated in England and Wales and domiciled in Scotland. The Company's ordinary shares are traded on the London Stock Exchange.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2009. The Group's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board. The principal accounting policies adopted by the Group are set out in note 2.

02 Accounting policies for the Group financial statements

The following accounting policies are applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of accounting

The financial information has been prepared using accounting policies consistent with IFRS and IFRIC Interpretations adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for certain fair value adjustments required by those accounting policies.

Accounting estimates

The Group's accounting policies make use of estimates and judgements in the following areas; Goodwill, Impairment, Depreciation, Decommissioning, Investment in Associates, Derivative Financial Instruments and Share-based Payments. These are described in more detail in the relevant accounting policy and related notes to the Financial Statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and each of its subsidiary undertakings having eliminated all inter-company transactions and balances.

Acquisitions

Business combinations are dealt with on the basis of the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets acquired (or assets given up in the case of swap transactions), equity instruments issued and liabilities incurred or assumed at the date of completion of the acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The results of subsidiaries acquired or disposed of are included/excluded in the consolidated income statement from the date on which control legally passes.

Joint Ventures

The Group is engaged in oil and gas exploration, development and production through unincorporated joint ventures and production sharing contracts (together "Joint Ventures"). The Group accounts for its share of the results and net assets of these Joint Ventures as jointly controlled assets. In addition, where Dana acts as operator to the Joint Venture, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the Joint Venture are included in the Group balance sheet. The Group's current Joint Venture interests are detailed on pages 108 to 110.

Revenue

Revenue reflects actual sales value, net of VAT and overriding royalties, in respect of liftings sold. Due to the fact that the Group follows the entitlement basis, adjustments in respect of overlift (liftings greater than production entitlement) and underlift (production entitlement greater than liftings) are recorded in/against cost of sales at market value. Where appropriate, entitlement revenue also includes an allowance for the gross up for tax paid on the Company's behalf by host governments.

Interest income is recognised on an accruals basis and is disclosed separately on the face of the income statement.

Foreign currencies

The functional currency for material subsidiaries is either Pounds Sterling, Norwegian Kroner or US Dollar.

Transactions in foreign currencies during the year are recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates ruling at the balance sheet date.

Exchange differences resulting from the translation of assets and liabilities of foreign currency denominated subsidiaries into pounds sterling at year-end rates of exchange, together with those differences resulting from the restatement of profits and losses from average to year-end rates, are taken directly to the cumulative translation reserve. All other exchange differences are taken to the income statement.

Transactions denominated in local currencies are re-measured into the functional currency at the rate ruling on the date that they arose.

Oil and gas expenditure

The Group accounts for oil and gas expenditure as follows:

Intangible assets – Exploration and Evaluation assets
Capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the income statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal are accumulated and capitalised as intangible exploration and evaluation (E&E) assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then, following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset, but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. If after completion of appraisal activities in an area, it is not possible to determine technical feasibility and commercial viability or if the legal right to explore expires or if the Company decides not to continue exploration and evaluation activity, then the costs of such unsuccessful exploration and evaluation is written off to the income statement in the period the relevant events occur.

Impairment

If and when facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount an impairment review is performed.

For E&E assets when there are such indications, an impairment test is carried out by grouping the E&E assets with the development & production assets belonging to the same geographic segment to form the Cash Generating Unit (“CGU”) for impairment testing. The equivalent combined carrying value of the CGU is compared against the CGU’s recoverable amount and any resulting impairment loss is written off to the income statement. The recoverable amount of the CGU is determined as the higher of its fair value less costs to sell and its value in use.

Property, plant and equipment – Development and Production assets
Capitalisation

Development and production (D&P) assets are accumulated into single field cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from E&E assets as outlined in the policy above.

Depreciation

Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proven and probable reserves for that cost centre. Development assets are not depreciated until production commences. The amortisation calculation takes account of the estimated future costs of development of recognised proven and probable reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

Currently there are no significant items of property, plant and equipment deemed to have different useful lives.

02 Accounting policies for the Group financial statements continued

Impairment

A review is performed for any indication that the value of the Group's D&P assets may be impaired.

For D&P assets when there are such indications, an impairment test is carried out on the CGU. Each CGU is identified in accordance with IAS 36. Dana's CGU's are those assets which generate largely independent cash flows and are normally, but not always, single development or production areas. If necessary, additional depletion is charged through the income statement if the capitalised costs of the CGU exceed the associated estimated future discounted cash flows of the related commercial oil and gas reserves.

Asset purchases and disposals

When a commercial transaction involves the purchase of a D&P asset in exchange for an E&E asset, the transaction is accounted for at fair value with the difference between fair value and cost being taken to the income statement.

When a commercial transaction involves the exchange of E&E assets of similar size and characteristics, no fair value calculation is performed. The capitalised costs of the asset being sold are transferred to the asset being acquired. However, where the size and characteristics of the E&E assets significantly differ, the transaction is accounted for at fair value with the difference between fair value and cost being taken to the income statement.

Proceeds from the entire disposal of an E&E asset are deducted from the capitalised costs of the asset with any surplus/deficit taken to the income statement as a gain or loss on sale. Proceeds from a part disposal of an E&E asset are deducted from the capitalised cost of the asset with any surplus taken to the income statement as a gain on sale.

Proceeds from the entire disposal of a D&P asset, or any part thereof, are taken to the income statement together with the requisite proportional net book value of the asset, or part thereof, being sold.

Goodwill

Goodwill arising on consolidation, representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised in the balance sheet. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. Goodwill is allocated to the appropriate CGU for the purpose of impairment testing.

Decommissioning

The Group recognises the full discounted cost of decommissioning when the obligation to rectify environmental damage arises, principally on development sanction. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding D&P asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the D&P asset. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the D&P asset. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Property, plant and equipment other than D&P assets

Property, plant and equipment other than D&P assets are stated in the balance sheet at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis at the following annual rates:

- Equipment 10% – 25%
- Computer equipment 33%

Finance costs and debt

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for the intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are amortised and charged to the income statement as finance costs over the term of the debt.

Investment in associates

The Group's interest in its associate, being that entity over which it is deemed to have significant influence and which is neither a subsidiary nor a joint venture, is accounted for using the equity method of accounting. Under the equity method, the investment in its associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The Group's statement of change in equity reflects the Group's share of the fair value of the associate's net assets value on initial recognition and any subsequent movement in the fair value of the net assets of the associate required to be recognised directly in equity.

Financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies used into line with those of the Group; to take into account movement in the fair values assigned at the date of the acquisition and to reflect impairment losses where appropriate.

Available-for-sale financial assets

The Group determines the classification of its available-for-sale financial assets at initial recognition and re-evaluates this designation at each financial year end. When available-for-sale financial assets are recognised initially, they are measured at fair value, being the transaction price plus directly attributable transaction costs.

After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Inventories

Inventories comprise materials and equipment, which are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing the materials and equipment to its present condition and location.

Trade and other receivables

Trade receivables are recognised and carried at the original invoiced amount. Other receivables, excluding underlifted amounts, are measured at nominal value. Underlifted amounts are measured at market value in accordance with industry practice.

Trade and other payables

Trade and other payables, excluding overlifted amounts, are measured at cost. Overlifted amounts are measured at market value in accordance with industry practice.

Convertible bonds

The net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not remeasured. The liability component is carried at amortised cost.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

Share issue expenses and share premium account

Costs of share issues are written off against the premium arising on the issue of share capital.

02 Accounting policies for the Group financial statements continued

Taxation

Current tax

Current tax is recognised as a liability to the extent unpaid or if the amount paid exceeds the amount due it is recognised as an asset. Current tax assets and liabilities are measured at the amount expected to be paid/recovered from the taxation authorities, using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred income tax is recognised on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the Group financial statements.

Deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction (other than a business combination), that at the time of the transaction affects neither, accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date.

Deferred income tax assets are recognised to the extent that it is probable that future income tax profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

PRT and NPI tax

UK PRT and Norwegian NPI tax are treated as income taxes and deferred PRT and deferred NPI tax is calculated and provided for. Current UK PRT and Norwegian NPI tax are charged as tax expenses on the chargeable field profits included in the income statement and are deductible for UK and Norwegian corporation tax respectively.

Pensions

The Group contributes to the personal pension arrangements of Executive Directors and employees up to a specified percentage of salary in lieu of a formal corporate scheme. Contributions in lieu of pensions are charged to the income statement as incurred.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates, interest rates and movements in oil and gas prices.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Fair value estimation of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the reporting date. The fair value of foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. Other financial instruments are valued using standard pricing models or discounted cash flow techniques.

Operating leases

Rentals under operating leases are charged to the income statement on a straight line basis over the period of the lease.

Maintenance expenditure

Expenditure on major maintenance, refits or repairs is capitalised where it enhances the life or performance of an asset above its originally assessed standard of performance; replaces an asset or part of an asset which was separately depreciated and which is then written off, or restores the economic benefits of an asset which has been fully depreciated. All other maintenance expenditure is charged to the income statement as incurred.

Cash and cash equivalents

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

Share based payments

The Group has applied the requirements of IFRS 2 Share Based Payment to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Group issues both equity-settled and cash-settled share based payments as an incentive to certain key management and staff. Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Monte Carlo model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

For cash-settled share based payments, a liability is recognised based on the current fair value determined at each reporting date and that portion of the employees' services to which the payment relates that has been received by the reporting date.

Impact of new standards and interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

IFRS 2: Share based payment – Vesting Conditions and Cancellations

This standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 7: Financial Instruments: Disclosures

This standard requires enhanced disclosure relating to the fair value measurements and liquidity risk of financial instruments. The adoption of the revised standard has not had any impact on the Group's reported income or net assets and the required disclosure is detailed throughout this annual report.

IFRS 8: Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that it has three operating segments which are Europe, Egypt and Other International. Previously under IAS 14 Segment Reporting the Group only had one business segment which was the exploration for and production of hydrocarbon liquids and gas. See note 4 for the relevant disclosures for these segments.

IAS 1: Revised Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income. It presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements. The adoption of the revised standard has not impacted the financial position or performance of the Group.

IAS 23: Borrowing Costs

The standard has been revised to require capitalisation of borrowing costs on qualifying assets. This is already in line with the Group's current accounting policy.

IAS 32: Financial Instruments: Presentation and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

No IFRIC issued in the period has had an impact on the Group.

In May 2008 and April 2009 the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments applicable to 31 December 2009 did not have any impact on the accounting policies, financial position or performance of the Group and it is not anticipated that the improvements effective for periods after 31 December 2009 will have any impact on the Group.

02 Accounting policies for the Group financial statements continued

The following standards and interpretations have not yet been adopted but will be applicable to the Group:

International Accounting Standards (IAS/IFRS)	Accounting Periods Commencing After
• IFRS 2 Group Cash-settled share based payment arrangements	1 January 2010
• IFRS 3 Business Combinations (Revised)	1 July 2009
• IAS 27 Consolidated and Separate Financial Statements	1 July 2009
• IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)	1 July 2009
• IFRIC 17 Distributions of Non-cash Assets to Owners	1 July 2009

IFRS 2: Group Cash-settled share based payment arrangements

The IASB issued an amendment to IFRS 2 that clarifies the scope and the accounting for group cash-settled share based payment transactions. The Group does not expect the standard to have an impact on the Group.

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

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect any future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

IAS 39: Financial Instruments: Recognition and Measurement

Eligible Hedged Items – the amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17: Distributions of Non-cash Assets to Owners

It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements.

No other standard or interpretation issued in the period is expected to have an impact on the Group.

03 Revenue

Revenue disclosed in the income statement is analysed as follows:

	2009 £'000	2008 £'000
Oil, gas and condensate sales	385,471	503,877
Other revenue	11,796	14,102
Revenue	397,267	517,979
Bank interest (financial assets not at fair value through profit and loss)	1,806	5,505
Total revenue	399,073	523,484

No revenue was derived from the exchange of goods and services (2008: £Nil).

Included in oil, gas and condensate sales are amounts relating to deferred income and embedded derivative income (note 16) arising on the Victor gas sales contract. These amounts are £391,000 (2008: £880,000) and £1,149,000 (2008: £1,532,000) respectively.

Other revenue includes amounts receivable in respect of third party tariff income.

04 Segment information

As described in note 2, the following disclosures are in accordance with IFRS 8, Operating Segments. For management purposes, the Group is organised into business units based on their geographic location and value-chain activity. The Group has three reportable operating segments as follows:

Europe – The Group is currently involved in the exploration, development and production of hydrocarbons in this geographic location.

Egypt – The Group is currently involved in the exploration, development and production of hydrocarbons in this geographic location.

Other International – The Group is currently only involved in the exploration of hydrocarbons in this geographic location.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the economic evaluation of the reserve and resource potential and growth in each segment. Group financing (including finance costs and interest income), foreign exchange and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

Segment revenues and results

The following tables present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2009 and 31 December 2008 respectively.

	Europe £'000	Egypt £'000	Other international £'000	Total £'000
Year ended 31 December 2009				
Revenue ⁽¹⁾	349,822	47,445	–	397,267
Results				
Segment result	106,156 ⁽²⁾	(25,204)	(19,264)	61,688
Foreign exchange				7,994
Interest Income				1,806
Finance Costs				(17,571)
Taxation				(31,343)
Profit for the year				22,574
Year ended 31 December 2008				
Revenue ⁽¹⁾	452,360	63,560	2,059	517,979
Results				
Segment result	164,999 ⁽²⁾	22,765	(4,445)	183,319
Foreign exchange				19,062
Interest income				5,505
Finance costs				(17,403)
Taxation				(94,248)
Profit for the year				96,235

⁽¹⁾ All revenue is derived from third party sales.

⁽²⁾ Included within Europe profit is the share of post tax losses of the associate £2,512,000 (2008: £923,000).

04 Segment information continued

Segment assets

The following table presents segment assets of the Group's operating segments as at 31 December 2009 and 31 December 2008:

	Europe £'000	Egypt £'000	Other international £'000	Adjustments and eliminations £'000	Total £'000
At 31 December 2009	906,519⁽¹⁾	323,663	52,678	75,145⁽²⁾	1,358,005
At 31 December 2008	644,926 ⁽¹⁾	349,403	45,281	168,182 ⁽²⁾	1,207,792

⁽¹⁾ Included within Europe assets is the investment in associate £39,096,000 (2008: £41,131,000).

⁽²⁾ Segment assets do not include deferred PRT/NPI £7,595,000 (2008: £8,085,000), derivative financial instruments £nil (2008: £1,149,000), or cash and cash equivalents £67,550,000 (2008: (£158,948,000)).

Segment liabilities

The following table presents segment liabilities of the Group's operating segments as at 31 December 2009 and 31 December 2008:

	Europe £'000	Egypt £'000	Other international £'000	Adjustments and eliminations £'000	Total £'000
At 31 December 2009	152,644	28,008	32,713	487,532⁽¹⁾	700,897
At 31 December 2008	149,753	26,512	34,508	400,817 ⁽¹⁾	611,590

⁽¹⁾ Segment liabilities do not include current tax £11,022,000 (2008: £39,810,000), borrowings and financial liabilities £211,304,000 (2008: £115,767,000) and provision for deferred taxation £265,206,000 (2008: £245,240,000).

Other Segment Information

	Depreciation		Exploration and evaluation expense		Additions to non-current assets	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Europe	82,435	62,998	9,618	27,923	280,718	111,465
Egypt	24,769	23,513	23,649	40	54,967	55,625
Other International	–	–	15,828	6,029	32,550	10,042
	115,148	86,511	49,095	33,992	368,235	177,132

In addition to the depreciation reported above, an impairment loss of £7,944,000 was recognised in respect of property, plant and equipment which is attributable to the Europe segment.

04 Segment information continued

Revenues from major products and services

The Group's revenues from its major products and services were as follows:

	2009 £'000	2008 £'000
Oil	343,417	408,175
Gas	40,965	93,299
Condensate	1,089	2,403
Tariff income	11,796	14,102
Consolidated revenue (excluding investment revenue)	397,267	517,979

Geographical Information

The Group's revenue from external customers and information about its segment assets (non-current assets excluding deferred tax assets and other financial assets) by geographical location are detailed below:

	Revenue		Non-current assets	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
UK	299,101	380,765	609,950	436,255
Egypt	47,445	63,560	282,251	303,266
Norway	47,456	69,444	188,746	160,793
Other	3,265	4,210	58,895	48,785
	397,267	517,979	1,139,842	949,099

Information about Major Customers

Included in revenues arising from the UK, Norway and Egypt are revenues of approximately £215,125,000 (2008: £228,988,000), £46,921,000 (2008: £65,858,000) and £46,772,000 (2008: £76,279,000) respectively which arose from sales to the Group's four largest customers. In the UK, the Group typically re-tenders its hydrocarbon sales contracts on an annual basis.

05 Profit on operating activities before interest and taxation

Profit on operating activities before interest and taxation is stated after charging/(crediting):

	2009 £'000	2008 £'000
Depreciation (note 12)	107,204	86,511
Asset impairment (note 12)	7,944	22,380
Inventory consumed	2,257	2,745
Net (under)/over lifted production movement	(15,607)	24,664
Insurance claim receipt	–	(1,490)
Net foreign exchange differences	(7,994)	(19,062)
Egypt tax-in-kind	(3,085)	(14,010)
Operating lease rentals	1,161	628
Exploration and Evaluation: Gain	(757)	–
Exploration and Evaluation: Expense		
– Costs of licences expired/relinquished	1,975	5,060
– Wells declared non commercial	41,278	24,792
– Pre licence expenditure	5,842	4,140
	49,095	33,992

06 Auditors' remuneration

	2009 £'000	2008 £'000
Audit of the Group accounts	142	131
Audit of the Company's accounts	35	35
	177	166
Other fees to auditors:		
– Audit of Company's subsidiaries pursuant to legislation	90	85
– Other services pursuant to legislation	30	29
– Taxation services	16	45
– Corporate finance services: transaction costs and financing costs	138	47
	274	206

07 Finance costs

	2009 £'000	2008 £'000
Bank and other loans (financial liabilities not at fair value through profit and loss)	2,950	3,533
Convertible bonds (note 21)	8,124	7,880
Unwinding of decommissioning discount (note 22)	6,497	5,990
	17,571	17,403

08 Employment costs

	2009 £'000	2008 £'000
Wages and salaries	16,265	13,864
Pension costs	709	681
Social security costs	2,974	2,870
	19,948	17,415

Included in wages and salaries is a total net expense of share based payments of £4,256,000 (2008: £2,041,000) of which £3,638,000 (2008: £2,694,000) arises from transactions accounted for as equity settled share-based payment transactions. The carrying amount of the liability at the end of the year for cash settled share-based payment transactions is £1,802,000 (2008: £1,425,000).

The weighted average number of employees (including Executive Directors) during the year was:

	2009	2008
Management	17	17
Technical and administration	95	71
	112	88
Russian subsidiary	23	32
	135	120

Excluded from the above totals are 256 employees (2008: 226), being the weighted average number employed by Zeitco, a Joint Venture owned by the Group and Egyptian General Petroleum Corporation.

No employees other than the Directors are determined to be Key Management Personnel.

Details for each Director, of remuneration, pension entitlements and interests in share options and incentive arrangements are set out in the audited section of the Report on Director's Remuneration on pages 55 to 57.

09 Taxation

	2009 £'000	2008 £'000
a) Analysis of Tax on profit on ordinary activities		
Current Taxation		
PRT/NPI	2,241	13,979
Corporation tax	(4,143)	96,733
Current tax (credit)/charge	(1,902)	110,712
Amounts (over) provided in previous years	(652)	(3,056)
Total current tax (credit)/charge	(2,554)	107,656
Deferred Taxation		
Deferred corporation tax	31,452	(10,276)
Deferred PRT/NPI	490	(3,787)
Current deferred tax charge/(credit)	31,942	(14,063)
Amounts under provided in previous years	1,955	655
Total deferred tax charge/(credit)	33,897	(13,408)
Total tax charge in the income statement	31,343	94,248
Tax on profit from operating activities may be analysed as follows:		
Current tax (credit)/charge		
UK	11,917	78,499
Overseas	(14,471)	29,157
	(2,554)	107,656
Deferred tax charge/(credit)		
UK	33,837	10,247
Overseas	60	(23,655)
	33,897	(13,408)
Total tax charge		
UK	45,754	88,746
Overseas	(14,411)	5,502
	31,343	94,248
Tax relating to items charged or credited to equity		
	2009 £'000	2008 £'000
Current tax:		
Current tax (credit) on share option awards	(3)	(1,220)
Deferred tax:		
Unrealised loss/(gain) on available-for-sale financial assets	487	(3,091)
(Credit)/charge for deferred tax on share option awards	(2,513)	1,144
Total deferred tax (credit)	(2,026)	(1,947)
Total tax (credit) in the Group statement of changes in equity	(2,029)	(3,167)

09 Taxation continued

b) Reconciliation of the total tax charge

The tax charge for the year is higher than the weighted average rate for the year. The difference is explained below:

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	56,429	191,406
Tax at the weighted average rate of corporation tax of 48.41% (2008: 40.56%)	27,315	77,634
Disallowed expenses and non-taxable income	(190)	5,226
Supplementary charge differences on finance income and costs	2,831	2,172
Tax losses utilised not previously recognised/brought back	1,875	1,118
Unprovided deferred tax asset	1,857	2
PRT	765	10,192
Allowable deduction for PRT	(1,671)	(5,981)
Foreign tax calculation differences	(3,573)	818
Adjustment in respect of prior years	1,303	(2,614)
Non qualifying depreciation	1,931	5,690
Norway tax uplift	(1,100)	(9)
Total tax expense reported in the income statement	31,343	94,248

The weighted average rate of corporation tax of 48.41% (2008: 40.56%) is calculated using the following methodology. Tax charges are calculated by applying the statutory tax rate in each tax jurisdiction to the profit before tax for each entity. The sum of the tax charges for each entity is then divided by the Group accounting profit before tax to derive the weighted average rate of corporation tax for the year.

The weighted average rate of corporation tax has changed from the previous accounting period due to differences in the weighted average mix of profits in each tax jurisdiction.

c) Unrecognised tax losses

The Group has unrecognised tax losses which arose in Egypt of £35,953,000 (2008: £46,192,000) in respect of exploration activities outside the 'ring-fence', that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that the asset is recoverable. The asset is recoverable if there were future suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

d) Temporary differences associated with Group investments

At 31 December 2009, no deferred tax liability (2008: Nil) has been recognised in respect of taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the near future.

The temporary differences associated with investments in subsidiaries for which deferred tax has not been recognised aggregated to £nil (2008: £738,000). The temporary differences have reduced to £nil from the previous year as a result of a change to UK legislation which largely exempts dividends received after 1 July 2009 from UK tax.

09 Taxation continued

e) Deferred taxation

Deferred tax included in the Group balance sheet is as follows:

	2009 £'000	2008 £'000
Deferred tax liability		
Accelerated capital allowances	367,946	280,384
Revaluation of available-for-sale financial assets	487	–
Share based payment	(8,112)	(3,960)
PRT/NPI	3,488	5,454
Embedded derivative	–	574
Other temporary differences	(19,679)	(22,414)
Tax losses	(78,924)	(14,798)
	265,206	245,240
Deferred tax asset		
PRT/NPI	7,595	8,085
	7,595	8,085

The deferred tax included in the Group income statement is as follows:

Deferred tax in the income statement

	2009	2008
Accelerated capital allowances	41,751	3,917
Share based payment	(1,533)	(951)
Embedded derivative	(575)	(766)
PRT/NPI	(571)	(3,787)
Other temporary differences	(11,233)	(12,644)
Tax losses	6,058	823
Deferred tax charge/(credit)	33,897	(13,408)

10 Earnings per share

The basic earnings per ordinary share of 25.19p (2008: 111.13p) is calculated on the profit for the year attributable to equity holders of the parent of £22,574,000 (2008: £96,235,000) and divided by the weighted average of 89,625,065 ordinary shares (2008: 86,593,686).

The diluted earnings per share of 24.66p (2008: 104.99p) is calculated on the profit for the year attributable to equity holders of the parent of £22,574,000 (2008: diluted profit of £101,909,000 being the profit for the year of £96,235,000 plus the convertible bond interest (net of tax) of £5,647,000) divided by 91,534,608 dilutive potential ordinary shares (2008: 97,062,832), calculated as follows:

	2009 '000	2008 '000
Basic weighted average number of shares	89,625	86,594
Dilutive potential ordinary shares:		
– Share option schemes	1,910	1,867
– Convertible bonds	–	8,602
	91,535	97,063

In 2009, 8,601,824 potential ordinary shares in relation to the convertible bonds were anti-dilutive.

There have been no other significant transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements which require to be disclosed.

11 Intangible assets

The movements during the year were as follows:

	Goodwill £'000	Exploration and Evaluation Assets £'000	Total £'000
Cost and net book value:			
At 1 January 2008	130,850	172,397	303,247
Transfers and reclassifications	–	(26,729)	(26,729)
Exchange adjustments	24,130	11,718	35,848
Additions	–	105,378	105,378
Unsuccessful exploration and evaluation	–	(29,852)	(29,852)
At 31 December 2008	154,980	232,912	387,892
Exchange adjustments	(164)	1,421	1,257
Additions	–	143,480	143,480
Disposals	–	(535)	(535)
Acquisitions	4,428	–	4,428
Unsuccessful exploration and evaluation	–	(43,253)	(43,253)
At 31 December 2009	159,244	334,025	493,269

Exploration and Evaluation

Additions to exploration and evaluation assets represent the ongoing execution of the underlying work programmes and the fulfillment of individual licence requirements.

During the year, following completion of geotechnical evaluation activity, certain licences were either relinquished or are in the process of being relinquished, and were declared unsuccessful. Accordingly the related licence expenditures were expensed. During 2009, the principal exploration write-offs were Morocco - Bouanane, Egypt – North Qarun, South Fieran, North Ghara and Norway – Trolia.

Goodwill

Goodwill arising on acquisition is described more fully in note 28 Acquisition of Subsidiaries, on page 96.

The Group has three reportable segments – Europe, Egypt and Other International. No goodwill has been allocated to Other International and therefore Europe and Egypt are used as cash generating units for the purpose of assessing the carrying value of goodwill arising on business combinations on an annual basis as they are currently the lowest level that goodwill is reviewed by the Board.

Carrying amount of goodwill of each cash generating unit

	31 December 2009 £'000	31 December 2008 £'000
Europe	100,616	89,131
Egypt	58,628	65,849
	159,244	154,980

Value in use: key assumptions

The recoverable amount of each cash generating unit (“CGU”) is determined by value in use calculations which measure the net present value at the reporting date of the anticipated cash flow projections from each individual asset which comprise the portfolio underpinning the CGU. Life of field cash flow projections are used for development and producing assets, applying generally accepted market assumptions for commodity price and future inflation. For exploration assets a risked valuation is used which combines an assessment of the expected chance of commercial success and likely development cost. Value attributable to exploration from the Group’s extensive exploration portfolio, is derived from two sources; one, being the market value of existing discoveries which have established the presence of hydrocarbons, but where further appraisal activity is required, and the other, being the economic monetary value of the future drilling portfolio taking account of geological risking less the expected pre-tax exploration cost; in both cases, using valuation multiples in line with precedent transactions.

11 Intangible assets continued

The risk adjusted cash flows are then discounted at 12% (Note that Egypt assets are discounted at 8% as pre-tax and post-tax cash flow are the same).

The calculation of value in use for the CGU is most sensitive to the following assumptions:

- Commodity price
- Production volumes
- Exchange rates
- Discount rates
- Operating costs
- Capital costs

Commodity prices reflect a market view of future prices. An average of independent market prices was used and for oil were: 2010 – \$74.69/bbl, 2011 – \$83.16/bbl, 2012 - \$88.48/bbl, 2013 - \$87.59/bbl, 2014 - \$86.43/bbl, 2015 - \$87.75/bbl and inflated by 0.4% thereafter and for gas: 2010 – £3.53/mscf, 2011 – £4.42/mscf, 2012 – £4.91/mscf, 2013 - \$5.26/mscf, 2014 - £5.78/mscf, 2015 - £4.91/mscf and inflated 0.4% thereafter.

Life of field production profiles are estimated for each individual asset within the Group development and production portfolio by the technical management team.

Operating costs and capital costs are estimated using information from either the operator for non-operated assets or the technical management team for operated assets.

The foreign exchange rates used for the calculations were:

USD/GBP – 1.60
NOK/GBP – 10.00
Euro/GBP – 1.15

The excess of the recoverable amount of the D&P and E&E assets over the carrying value of each CGU is £1,913.3m for Europe and £111.4m for Egypt.

Sensitivity to changes in assumptions

There are possible changes to the key assumptions above which might be considered reasonably likely and cause the carrying value of the CGU to exceed its recoverable amount. These are discussed below.

- Commodity price – the Board has considered the possibility of lower than planned oil and gas prices. A reduction in oil price to \$48.74 per bbl for the Europe CGU and \$59.80 per bbl for the Egypt CGU would be required before value in use, as defined above, was reduced to a value equal to its carrying amount.
- Production volumes – the Board recognises that production profiles may be adjusted at each future reserves estimate review. An “across-the-board” reduction of 57% for the Europe CGU and 30% for the Egypt CGU in production would be required before value in use, as defined above, was reduced to a value equal to its carrying amount.
- Exchange rates – the Board has considered the possibility of a significant movement in exchange rates between GBP and USD. An exchange rate of \$2.68/£1 for the Europe CGU and \$2.15/£1 for the Egypt CGU would be required before value in use, as defined above, was reduced to a value equal to its carrying amount.

12 Property, plant and equipment

The movements during the year were as follows:

	Development and Production assets £'000	Other £'000	Total £'000
Cost:			
At 1 January 2008	693,458	3,891	697,349
Transfers and reclassifications	26,729	–	26,729
Exchange adjustments	52,618	203	52,821
Additions	65,675	436	66,111
At 31 December 2008	838,480	4,530	843,010
Exchange adjustments	(20,290)	(82)	(20,372)
Additions	88,630	1,079	89,709
Acquisitions	133,547	–	133,547
At 31 December 2009	1,040,367	5,527	1,045,894
Depletion and depreciation:			
At 1 January 2008	211,498	1,516	213,014
Exchange adjustments	963	59	1,021
Impairment of assets (note 5)	22,380	–	22,380
Provided in year (note 5)	85,592	918	86,511
At 31 December 2008	320,433	2,493	322,926
Exchange adjustments	312	30	342
Impairment of assets (note 5)	7,944	–	7,944
Provided in year (note 5)	106,019	1,185	107,204
At 31 December 2009	434,708	3,708	438,416
Net book value			
At 31 December 2009	605,659	1,819	607,478
At 31 December 2008	518,047	2,037	520,084
At 1 January 2008	481,960	2,375	484,335

The current weak gas price outlook at the end of the year, indicated that an impairment review was required for gas development and producing assets and as a result of that review, the depletion and depreciation charge for 2009 for development and production assets, includes an amount of £7,944,000 in respect of an impairment provision for the Anglia asset. This was also attributable to a disappointing 2009 workover campaign on the asset and a subsequent downgrading of field reserves. In 2008, the depletion and depreciation charge for development and producing assets, includes an amount of £22,380,000 in respect of an impairment provision for the Jotun and Johnston assets. The value in use calculation used to determine the recoverable value of the asset, is detailed in note 11.

The Net book value of development and production assets at 31 December 2009 includes an amount of £95,964,000 (2008: £28,927,000) in respect of assets under the course of construction. Interest capitalised in relation to these assets in the year was £2,727,000. The capitalisation rate used to determine this amount was 8.50%.

13 Investments

Summary

	2009 £'000	2008 £'000
Investment in associate	39,096	41,131
Available-for-sale financial assets	11,299	–
	50,395	41,131

Investment in associate

	2009 £'000	2008 £'000
At 1 January	41,131	–
Cost transferred from available-for-sale financial assets	–	29,217
Fair value of net assets on initial recognition	–	6,843
Additions	–	5,643
Share of estimated post-tax associate loss	(2,512)	(923)
Net asset movement recognised directly in equity	477	351
At 31 December	39,096	41,131

The Group holds 27.53% of the ordinary share capital of the AIM listed company, Faroe Petroleum plc (“Faroese”), which is incorporated in the UK.

The following table provides further analysis of the Group’s investment in Faroese:

	2009 £'000	2008 £'000
Share of the associate’s balance sheet:		
Non-current assets	45,375	32,583
Current assets	15,189	15,175
Non-current liabilities	(8,618)	(2,143)
Current liabilities	(12,850)	(4,484)
Share of net assets	39,096	41,131

Share of associate’s results:

Revenue	1,249	189
Loss for the year	(2,512)	(923)

The fair value of the Group’s share of the associate based on Faroese’s share price at 31 December 2009 is £38,062,000 (2008: £15,000,000).

Based on both independent research and the Group’s own assessment of the value in use of Faroese, no impairment was considered necessary.

Available-for-sale financial assets

	2009 £'000	2008 £'000
At 1 January	–	30,032
Additions	9,448	10,336
Transfers and reclassifications	–	(29,217)
Foreign Exchange	118	–
Fair value adjustments	1,733	(11,151)
At 31 December	11,299	–

13 Investments continued

As a result of the Bow Valley acquisition (see note 28), the Group acquired an investment in third party non-bank sponsored asset backed papers ('ABCP') with a face value of C\$40,340,000. These notes should have been repaid prior to the Group's acquisition of Bow Valley, however, they were not repaid due to liquidity issues experienced in the Canadian ABCP market. As a consequence, these notes were restructured and were replaced with new longer term floating rate notes. Under the restructuring the Group now owns Class A, Class B and Class C notes. On acquisition, no reliable quoted market values for ABCP investments were available due to the current market disruption and as a result, the Group determined the fair value of its ABCP investment on acquisition to be £9,448,000 using available information regarding the proposed ABCP restructuring, market conditions and other factors. These values represented an indicative value of the underlying assets in a liquidation scenario at that date. During the last few months of the year the liquidity in the market for the notes has greatly increased and the Group has received indicative trading valuations and has increased the fair value of the notes as a result to C\$19,535,000, which is a discount of 52% of the face value of the notes.

During the previous year, the Group increased its share in its available-for-sale asset, Faroes through a series of market purchases to 27.53% and as a result the asset was reclassified as an investment in associate.

14 Inventories

	2009 £'000	2008 £'000
Materials and equipment	15,640	16,105

15 Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables (note 23)	72,542	51,505
Other receivables and prepayments	43,536	22,893
	116,078	74,398

	2009 £'000	2008 £'000
Ageing analysis of trade receivables		
– within 30 days	56,830	23,944
– 31 to 60 days	3,872	27,561
– greater than 61 days (past due but not impaired)	11,840	–
	72,542	51,505

No bad debts exist at the year end (2008: £Nil).

16 Derivative financial instruments

	2009 £'000	2008 £'000
Embedded derivative	–	1,149

The Group had an embedded derivative within the Victor gas contract. In compliance with IAS 39 the embedded derivative was recognised at its fair value in the financial statements from 1 January 2005. Fair value represented the discounted value of the anticipated future cash flows generated by the embedded derivative components. The discount rate applied was 8% (2008: 8%). The maturity date of the Victor gas contract was 30 September 2009 and the Group no longer has an embedded derivative.

17 Cash and cash equivalents

	2009 £'000	2008 £'000
Cash at bank and in hand	16,794	36,092
Short-term deposits	50,756	122,856
	67,550	158,948

Cash at bank earns interest at floating rates based on a discount to USD/GBP LIBOR. Short-term deposits are made for varying periods of between one day and three months depending on the future cash requirements of the Group, and earn interest at the respective short-term fixed deposit rates. The fair value of cash and cash equivalents is £67,550,000 (2008: £158,948,000).

18 Trade and other payables

	2009 £'000	2008 £'000
a) Current liabilities		
Trade payables (note 23)	36,325	37,659
Accruals and other payables	69,578	74,224
	105,903	111,883

Accruals and other payables includes interest payable of £2,050,000 (2008 – £2,051,000) in respect of convertible bonds (see note 21).

b) Non-current liabilities

	2009 £'000	2008 £'000
Future asset acquisition payments and deferred income	4,054	4,755

19 Current tax

	2009 £'000	2008 £'000
PRT/NPI	1,193	(210)
Corporation tax	9,829	40,020
	11,022	39,810

20 Borrowings and financial liabilities

	2009 £'000	2008 £'000
Bank loan	91,516	–
Convertible bond (note 21)	119,788	115,767
	211,304	115,767

a) The maturity of the borrowing liabilities disclosed above is as follows:

	2009 £'000	2008 £'000
Amounts falling due		
– in more than two years but not more than five years ⁽¹⁾	211,304	115,767

⁽¹⁾ assuming bondholders exercise their put option in 2012.

b) At 31 December 2009 the Group held a USD 400 million revolving credit facility with the Bank of Scotland. The facility was secured in the first half of the year and £91,516,000 is drawn on the facility at the end of the year. The bank facility is secured by fixed and floating charges over the assets of the parent company and the shares and assets of its principal subsidiary undertakings. Interest is currently chargeable at UK, USD and NOK LIBOR rates +2.25% depending on the currency of amounts drawn.

21 Convertible bonds

In July 2007, the Group issued £141,500,000 of Guaranteed convertible bonds due in 2014. The bonds have a conversion premium of 50%, representing a conversion price of £16.45 per Dana share, with a coupon of 2.9% payable semi-annually. The bonds have a seven year term and include an investor put on the fifth anniversary of the issue date. At the initial conversion price of £16.45 per share, there are 8,601,824 ordinary shares of the Company underlying the bonds.

	£'000
Total liability component as at 1 January 2008	114,040
Interest charged (note 7)	7,880
Interest paid	(4,102)
Total liability component as at 31 December 2008	117,818
Interest charged (note 7)	8,124
Interest paid	(4,104)
Total liability component as at 31 December 2009	121,838
Reported in:	
Interest payable in current liabilities (note 18)	2,050
Borrowing financial liabilities – non-current liabilities (note 20)	119,788
Total liability component as at 31 December 2009	121,838

The interest charged for the year is calculated by applying an effective interest rate of 6.60% (2008: 6.60%) to the liability component for the period since the bonds were issued. There is no material difference between the carrying amount of the liability component of the convertible bonds and their fair value. This fair value is calculated by discounting the future cash flows at the market rate.

22 Provisions for liabilities and charges

Decommissioning provision

	£'000
At 1 January 2009	94,135
New provisions and changes in estimates	3,555
Release of provision on sale of asset	(2,028)
Unwinding of discount (note 7)	6,497
Exchange adjustments	2,471
Expenditure incurred	(1,222)
At 31 December 2009	103,408

The decommissioning provision of £103,408,000 relates primarily to the Group's production and development facilities. These costs are expected to be incurred at various intervals over the next 27 years. The provision has been estimated using existing technology at current prices, escalated at 2.5%, and discounted at 7%. The economic life and the timing of the decommissioning liabilities are dependent on Government legislation, commodity price and the future production profiles of the respective production and development facilities. In addition, the costs of decommissioning are subject to inflationary/deflationary pressures in the cost of third party service provision.

23 Financial instruments

An outline of the objectives, policies and strategies pursued by the Group in relation to financial instruments is set out in the Financial Review on pages 34 to 35 of this report, and in note 2 on pages 66 to 72.

Nature and extent of risk associated with financial instruments

Market risk

As an upstream oil & gas company, the Company is subject to many risks, at both the macro and micro level, including currency, interest and credit risk, arising in the normal course of the Group's business. The Business Review on pages 7 and 8 describes these risks in more detail, but also provides the Company's view of the principal risks facing the Company that potentially have a medium to high impact on the Company. In particular, this highlights a number of risks which have emerged as a result of the rapid deterioration of the global economy into recession and the liquidity and credit crises in the world banking markets. Risks such as inability to finance work programmes, or potential default of coventurers and suppliers are all now higher profile risks facing the sector and the Company. During 2009, the Company secured a new source of bank funding for the next three years and continues to generally partner with larger, well-established upstream companies, so believes it has substantially mitigated these risks.

The Company has a geographically diverse portfolio of assets and remains unhedged with respect to commodity price, interest rates and currency fluctuations. Specific financial instrument risks are therefore deemed to be of low probability in nature and of low impact in quantum relative to the macro risks highlighted above. It is against this backdrop and context that the following disclosure on the nature and extent of risks from financial instruments is provided.

Financial assets and liabilities: credit risk

The financial assets of the Group are subject to floating charges provided to the debt provider for the new debt facility secured during the year (note 20). As such the financial assets are subject to certain terms and conditions (further explained below) which help preserve the credit worthiness of the asset to the debt providers.

Cash and cash equivalents

Unless agreed otherwise, all such balances must be maintained with institutions party to the debt facility. The Group may however, make money market deposits for up to six months duration and up to £40,000,000, with any institution whose senior unsecured credit and unguaranteed long term corporate debt rating is at least equivalent to Standard and Poor's AA-

23 Financial instruments continued

Trade and other receivables

The Group's exposure to credit risk in trade receivables is minimal. The Group does not have a trading arm, but sells produced hydrocarbons only to recognised and creditworthy parties, typically the trading arm of large, international oil & gas companies. European crudes sales are primarily sold under an annual contract at agreed premia or discounts to Brent, depending upon crude quality. Sales are typically generated on a monthly entitlement basis rather than "crude liftings" to facilitate regular cashflow.

Sales of gas are either sold under long-term contracts with built-in escalation mechanisms or under annual contracts at "day ahead" pricing.

European credit terms normally require settlement within 15 days of invoicing and accordingly impairment exposure is minimal, a fact supported by track record.

In recent years, the ageing profile of trade and other receivables has been extended due to the operations in Egypt. Egyptian crude is sold predominantly to government organisations but also to large international trading companies. Country practice is for much extended credit terms of up to 120 days, but particularly with the government organisations there is also an established practice of "offsetting" liabilities due to the counterparty, which facilitates the management of such receivables. Management of this extended credit exposure is one of the key objectives of the Egyptian business unit management team. During 2009 a further extension of credit terms was experienced in Egypt as a result of the global economic conditions.

Also in Egypt, the Group's operations in the East Zeit field, provides infrastructure access and logistics support services to third parties operating in the same locale. These other receivables occasionally prove problematic to collect and require active pursuit by management. The level of such receivables was significantly reduced in 2009. Past practice would also indicate that any impairment exposure is not material in the context of the Egyptian business.

As of 26 March 2010 78.1% of receivables outstanding at the year end have been collected.

An ageing analysis of trade receivables is disclosed in note 15.

The maximum credit risk exposure relating to financial assets and liabilities is represented by their carrying value as at the balance sheet date as set out in the summary table below.

Financial assets and liabilities: Liquidity risk

The Group's liquidity risk arises from the possibility that it may not be able to settle or meet its obligations as they fall due. This is a core management activity and is regularly reviewed by Directors. Operational, capital and regulatory requirements are amongst the matters considered in the management of liquidity risk, in conjunction with the Group's short- and long-term forecast information. In addition, and as part of the information undertakings under the debt facilities, the Company has to demonstrate covenant compliance at six monthly intervals and on a projected basis to the facility maturity date.

Cash and cash equivalents

As at 31 December 2009, the Group had cash and cash equivalents of £67,550,000 (2008: £158,948,000).

Borrowings and financial liabilities

The Group's interests are predominantly non-operated in nature and payments to suppliers occur only after goods and or services have been received. For operated activity, material or long-term contracts will generally only be awarded after a tender process, where supplier creditworthiness will be evaluated. Also where a drilling management contractor has been engaged, specific contractual arrangements have been put in place to govern and control the disbursement of funds by the intermediary.

During 2009, the Group agreed a USD 400 million revolving credit facility with the Bank of Scotland which has secured funding and cashflow for the Group for the next three years, during an environment when access to liquidity was extremely difficult. The revolving nature of the facility allows the Company to draw and repay funds at its discretion to facilitate cash management. The facility is required to be repaid by maturity. The Group also continued to service the coupon on the 2014 Guaranteed Convertible Bond. The Convertible Bond has an investor put in July 2012.

An analysis of the maturity profile of the Group's borrowing financial liabilities is shown in note 20a) and details of the underlying facilities are detailed in note 20b) and note 21. The undiscounted cash flows associated with the maturity profile of non-current borrowings and financial liabilities is noted on the following table.

	2009 £'000	2008 £'000
Amounts falling due		
– in one year or less or on demand	6,940	4,603
– in more than one year but not more than two years	10,398	4,104
– in more than two years but not more than five years ⁽¹⁾	236,534	159,110
	253,872	160,617

⁽¹⁾ assuming bondholders exercise their put option in 2012.

Financial assets and liabilities: Interest rate risk

Details of the Group's interest rate risk profile on financial assets and liabilities is set out below.

The fixed rate and competitive nature of the Convertible debt coupon of 2.9% per annum, provides excellent protection against the risk of changes in market interest rates and complements the variable interest rate applicable to the Bank debt. USD, GBP and NOK LIBOR rates underpin the Bank debt and remain low as governments continue to use interest rates to fight recessionary pressures. Accordingly in 2009, the Group continued to enjoy an extremely low cost of finance and profits provided adequate interest cover.

Financial assets

	Fixed rate financial assets < 1 year £'000	Floating rate financial assets < 1 year £'000	Total £'000
2009			
Cash and cash equivalents	50,756	16,794	67,550
2008			
Cash and cash equivalents	122,856	36,092	158,948

Cash and cash equivalents (which are presented as a single class of asset on the balance sheet) comprise cash at bank and other short-term deposits and liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

At 31 December 2009, short-term deposits and liquid investments were earning interest at a weighted average fixed deposit rate of 1.31% (2008: 3.78%). Cash at bank earns interest at floating rates based on a discount to USD/GBP LIBOR.

Financial liabilities

	Fixed rate financial liabilities > 1 year £'000	Floating rate financial liabilities > 1 year £'000	Total £'000
2009			
Bank Loan	–	91,516	91,516
Convertible Bond	119,788	–	119,788
	119,788	91,516	211,304
2008			
Convertible Bond	115,767	–	115,767
	115,767	–	115,767

The fixed rate liability comprises the convertible bonds issued which bear an interest coupon of 2.9% per annum until the maturity of the bonds in 2014 or on the exercise of the investor put on the fifth anniversary of the issue date (July 2012).

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The Group's earnings are sensitive to changes in interest rates on its financial liabilities. If the interest rates for the year were to have changed by +/- 1% in 2009, with all other variables held constant, it is estimated that the Group's profit before tax for 2009 would have increased by £2,901,000/decreased by £2,345,000 (2008: increased/decreased £1,531,000). There would be no impact on equity.

23 Financial instruments

continued

Financial assets and liabilities: Currency risk

The predominant functional currency within the Group is sterling but due to the Group's (USD denominated) oil production and USD denominated debt facility, the Group does remain exposed to fluctuations in the USD currency, the primary area of currency risk. Such exposures can be hedged against using financial instruments but the Group takes the view that this would be inconsistent with the Group's unhedged position on commodity price, given the historic inverse correlation between movements in the price of oil and movements in the USD.

Whilst this approach may give rise to currency exchange gains and losses, these are in effect largely offset by corresponding gains and losses in the value of crude oil sales.

Egyptian activities are undertaken by USD reporting entities given that this is the main currency of the underlying operations, with only a relatively minor exposure to Egyptian pounds. This creates exposure to currency translation risks which is mitigated by the USD bank debt drawn by the UK subsidiary which acquired these entities. Once again this may give rise to currency gains and losses, but these will be offset by corresponding gains and losses in the underlying financial results of the Egyptian subsidiaries.

Dana Petroleum Norway AS has a functional currency of NOK, the predominant source currency of the Company's cost base. Revenues, being generated from crude sales are however, USD denominated.

In cash terms the Group is short GBP and NOK, and long USD. The Group is however, able to make deposits of USD, on a dual or tri-currency basis, where in return for pre-agreed exchange rates, and interest yields significantly ahead of vanilla USD deposit rates, the Group grants the counterparty the right to return the original deposit, in the nominated currency of their choice, namely USD, GBP or NOK. Using this mechanism the Group has been able to achieve deposit yields much higher than those available on vanilla USD deposits.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, on the Group's profit before tax and the Group's equity.

	Increase/ decrease in US Dollar rate	Effect on profit before tax £'000	Effect on equity £'000
2009	(+ or -) 10%	1,069	-
2008	(+ or -) 10%	3,000	-

Details of the Group's current exposure to USD in its financial assets and liabilities, is set out in the following summary table.

Fair values of financial assets and financial liabilities: Summary

Set out below is a comparison by category of carrying amounts and foreign currency exposure of all of the Group's financial assets and liabilities as at 31 December. The fair values of the financial assets and liabilities generally approximate to the carrying values.

2009	Source Currency	Cash and receivables £'000	Available- for-sale financial Assets £'000	Held at fair value through profit or loss £'000	Other financial assets and liabilities at amortised cost £'000
Financial assets					
Cash and cash equivalents	GBP/Other	17,194	-	-	-
	USD	50,356	-	-	-
		67,550	-	-	-
Available-for-sale financial assets	GBP/Other	-	11,299	-	-
			11,299	-	-
Trade receivables	GBP/Other	7,856	-	-	-
	USD	64,686	-	-	-
		72,542	-	-	-
Financial liabilities					
Trade and other payables ⁽¹⁾	GBP/Other	-	-	-	75,333
	USD	-	-	-	34,624
		-	-	-	109,957
Bank loan	GBP/Other	-	-	-	29,590
	USD	-	-	-	61,926
		-	-	-	91,516
Convertible bonds	GBP/Other	-	-	-	119,788
			-	-	119,788
2008					
Financial assets					
Cash and cash equivalents	GBP/Other	49,378	-	-	-
	USD	109,570	-	-	-
		158,948	-	-	-
Available-for-sale financial assets	GBP/Other	-	-	-	-
Derivative financial instruments	GBP/Other	-	-	1,149	-
	USD	-	-	-	-
		-	-	1,149	-
Trade receivables	GBP/Other	8,910	-	-	-
	USD	42,595	-	-	-
		51,505	-	-	-
Financial liabilities					
Trade and other payables ⁽¹⁾	GBP/Other	-	-	-	44,900
	USD	-	-	-	34,079
		-	-	-	78,979
Convertible bonds	GBP/Other	-	-	-	115,767
			-	-	115,767

⁽¹⁾ Current and non-current

The assets and liabilities noted above, which are measured at fair value use level 1 inputs (quoted prices (unadjusted) in active markets for identical assets and liabilities) as the source in determining their fair value as at 31 December 2008 and 2009.

23 Financial instruments continued

The following significant exchange rates were applied during the reporting periods:

	Average rate		Year end spot rate	
	2009 £	2008 £	2009 £	2008 £
USD	1.5664	1.8525	1.6149	1.4378
NOK	9.8131	10.3355	9.3287	10.0673
EUR	1.1233	1.2581	1.1255	1.0344
LE	8.6152	10.1844	8.8500	8.1115

The fair value of the available-for-sale financial assets is detailed in note 13.

24 Called-up share capital

	Number of 15p Ordinary '000'	£'000
Authorised ordinary shares		
At 1 January 2009	130,000	19,500
Increase in authorised ordinary shares	30,000	4,500
At 31 December 2009	160,000	24,000
Allotted, called up and fully paid ordinary shares		
At 1 January 2008	86,048	12,907
Issued and fully paid for share option scheme exercises	847	127
At 31 December 2008	86,895	13,034
Issued and fully paid for share option scheme exercises	767	115
Issued and fully paid on equity placing	4,344	652
At 31 December 2009	92,006	13,801

During the year a total of 751,466 ordinary shares of 15p each were issued to various employees pursuant to the exercise of share options at a weighted average exercise price of £2.24, a further 16,510 ordinary shares of 15p each were issued to various employees pursuant to the maturity of share save scheme awards at a weighted average exercise price of £3.34 and a further 4,343,706 ordinary shares of 15p each were issued as a result of a share placing at a price of £12.58.

At 31 December 2009 the issued share capital of the Group was represented by 92,005,770 ordinary shares of 15p each (2008: 86,894,088).

The Group has provided an unconditional and irrevocable guarantee for the Convertible Bonds ('Bonds') issued in 2007 by Dana Petroleum (Jersey) Limited, a wholly owned subsidiary, the details of which are contained in note 21. In accordance with the terms and conditions of the Bonds, the Bonds will be convertible into preference shares of the issuer, which will then be immediately exchanged for ordinary shares in the Company as guarantor.

Capital Structure

The Group's management remains committed to delivering and enhancing shareholder value, and building upon the progress made during recent years. The Board continues to believe that this can best be achieved by investing in the existing asset portfolio and through the acquisition of new commercial opportunities as they arise. In light of the Group's ongoing commitment to an extensive forward work programme and the continuing tight market conditions, the Directors do not recommend payment of a dividend at this time. This is, however, reviewed by the Board on a regular basis.

24 Called up share capital continued

The Group seeks to optimise the return on investment, by managing the capital structure to achieve capital efficiency via the appropriate level of access to the debt markets at attractive cost levels. Notes 20 and 21 to the financial statements provide further details of the Group's financing activity.

Capital for the Group is equity attributable to the equity holders of the Parent company, and is detailed in the Group Statement of Changes in Equity on page 64.

	2009 £'000	2008 £'000
Borrowings and financial liabilities	211,304	115,767
Less Cash and cash equivalents	(67,550)	(158,948)
Net debt/(funds)	143,754	(43,181)
Capital	657,108	596,202
Gearing ratio	22%	N/A

25 Share-based payments

During the year the following share-based payment arrangements were in operation by the Company:

The 2006 Long-Term Incentive Plan (LTIP)

The extent, nature, term and general terms and conditions, (including vesting), relating to this arrangement, are detailed in the Report on Directors' Remuneration on pages 51, 52 and 56. No awards were granted during 2009.

Details of LTIP awards outstanding are as follows:

2009	LTIPs Granted to 1 January	LTIPs Granted	Lapsed	LTIPs Held at 31 December	Share Price At Grant £	Fair Value £
2006 award: Level 1 & 2	310,118	–	–	310,118	10.20	5.5096
2006 award: Level 3	94,028	–	–	94,028	10.20	5.9629
2007 award: Level 1 & 2	261,586	–	–	261,586	12.73	7.1201
2007 award: Level 3	123,507	–	401	123,106	12.73	7.5700
2008 award: Level 1 & 2	423,600	–	–	423,600	9.51	5.2824
2008 award: Level 3	208,735	–	–	208,735	9.51	5.5902
	1,421,574	–	401	1,421,173		

The fair valuation of the LTIP awards was undertaken by PwC (formerly Halliwell Consulting), the Company's Remuneration consultants, using a Monte Carlo model, and utilised the following key inputs:

	2006 & 2007 Awards	2008 Awards
Risk free interest rate	4.7255% to 5.5184%	3.8340%
Expected volatility	33.8827% to 34.8783%	42.5506%
Exercise price	£0.00	£0.00
Dividend yield	0.00%	0.00%
Vesting period	3 years	3 years
Expected life	3 years	3 years
Forfeiture rate per annum	8.00%	0.00% level 1 & 2
		8.00% level 3

The expected life is the period from the date of grant to the vesting date.

The LTIP is an "equity settled" share based payment arrangement. The Company recognised a total expense during the year of £2,938,000 (2008: £1,821,000) in respect of the LTIP.

25 Share-based payments continued

The Share Option Scheme

The extent, nature, term and general terms and conditions, (including vesting), relating to this arrangement, are detailed in the Report on Directors' Remuneration on page 56.

The Share Save Scheme

The extent, nature, term and general terms and conditions, (including vesting), relating to this arrangement, are also detailed in the Report on Directors' Remuneration on page 57.

The Share Option and Share Save Scheme are considered to be "equity-settled" transactions, and for all awards post 7 November 2002, require to be fair valued at the date of award. Based on the results of this actuarial review, the Share Save Scheme was demonstrated to be immaterial and accordingly the requirements of IFRS 2 – Share Based Payment, are not applied to this arrangement.

The "Phantom" Option Scheme

Prior to the introduction of the LTIP, senior managers (excluding Directors), participated in this arrangement, which mirrored the terms and conditionality of the Share Option Scheme, except that on exercise they are "cash-settled" transactions. As such, these transactions also require to be fair valued, but at each reporting date. As all awards have fully vested, phantoms outstanding are measured and re-measured using the Company's share price at the end of the reporting period, with changes in value recognised in the income statement.

The following table illustrates the number and weighted average exercise prices (WAEP) of movements in the respective option schemes.

	Options Granted to 1 January '000'	Lapsed '000'	Options Granted '000'	Exercised '000'	Options Held at 31 December '000'	Of Which Exercisable '000'
2009						
Share Option Scheme	1,487 ⁽¹⁾	–	–	751	736	736
WAEP	£3.177	–	–	£2.238 ⁽²⁾	£4.135	£4.135
Phantom Option Scheme	320	–	–	40	280	280
WAEP	£5.466	–	–	£6.455	£5.325	£5.325

	Options Granted to 1 January '000'	Lapsed '000'	Options Granted '000'	Exercised '000'	Options Held at 31 December '000'	Of Which Exercisable '000'
2008						
Share Option Scheme	2,030 ⁽¹⁾	–	–	543	1,487 ⁽¹⁾	1,487 ⁽¹⁾
WAEP	£3.215	–	–	£3.319 ⁽²⁾	£3.177	£3.177
Phantom Option Scheme	380	–	–	60	320	320
WAEP	£5.622	–	–	£6.455	£5.466	£5.466

⁽¹⁾ Included within this balance are options of 731,000 shares that have not been recognised in accordance with IFRS 2 as the options were granted before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2. These options were exercised during 2009. All remaining options have therefore been recognized in accordance with IFRS 2.

⁽²⁾ The weighted average share price at the date of exercise for the options exercised was £11.886 (2008: £18.271).

For the share options outstanding as at 31 December 2009, the weighted average remaining contractual life is 5 years (2008: 3.71 years).

The exercise price for options outstanding at the end of the year was £4.135 (2008: range of £2.0625 – £4.135).

25 Share-based payments continued

Deferred Share Payments A and B

The extent, nature and general terms and conditions of these awards to Mr T P Cross are detailed in the Report of the Directors on page 44. The shares granted under these arrangements are subject to a five year holding period restriction, or until the termination of the employment contract of Mr T P Cross. The fair value of these awards are being amortised over a five year vesting period.

The carrying amount of the liability relating to the cash-settled options at 31 December 2009 is £1,802,000 (2008: £1,425,000). The net expense recognised for the share based payments above in respect of employee services during the year to 31 December 2009 is £4,256,000 (2008: £2,041,000). The portion of that expense arising from equity-settled share based payment transactions is £3,638,000 (2008: £2,694,000).

26 Reconciliation of movements in equity

The reconciliation of movements in equity is detailed in the Group Statement of Changes in Equity on page 64. The following is a description of the nature and purpose of each reserve:

Share capital

The balance classified as share capital is the nominal value on issue of the Group's equity share capital, comprising 15p ordinary shares.

Share premium

The balance classified as share premium is the premium on issue of the Group's equity share capital, comprising 15p ordinary shares less any costs of issuing the shares.

Cumulative translation reserve

The cumulative translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Other reserves

Other reserves records the fair value changes on available-for-sale financial assets, reserves relating to the Group's transition to a UK listing from an Irish listing in 1997, and the equity component of the convertible bond issue (see note 21).

27 Net cash flows from operating activities

	2009 £'000	2008 £'000
Profit for the Financial Year	22,574	96,235
Depreciation	107,204	86,511
Asset impairment	7,944	22,380
Deferred income	(391)	(880)
Interest income	(1,806)	(5,505)
Interest expense	14,368	15,651
Finance Fees	3,203	1,752
Taxation	31,343	94,248
Egypt tax-in-kind	(3,084)	(14,010)
Employee share scheme charge	3,638	2,694
Exchange difference	(7,994)	(19,062)
Net exploration and evaluation	48,338	33,992
Release of abandonment provision on disposal of asset	(2,028)	-
Fair value movements on derivatives	1,149	1,532
Share of loss in associate	2,512	923
Movements in working capital:		
Inventory movement	2,842	(1,457)
Receivables movement	(39,426)	4,896
Payables movement	(25,659)	25,144
Cash Generated from Operating Activities	164,727	345,044

28 Acquisition of subsidiaries

Bow Valley Energy Ltd ("Bow Valley")

On 30th April 2009, the Group completed the acquisition of the entire share capital of Bow Valley, a Toronto Stock Exchange-listed oil and gas exploration and production group of companies focused predominantly on the UK North Sea with additional acreage in Alaska. In addition to a consideration of approximately C\$43,300,000, the Group also repaid Bow Valley's bank debt of approximately £119,000,000.

The acquisition of Bow Valley is directly in line with the Group's successful strategy of growing reserves and production in its core operating areas through both exploration and acquisition. The Group already has a working knowledge of the North Sea assets of Bow Valley which form a close fit with Dana's existing North Sea portfolio. These factors support the goodwill arising on acquisition.

The transaction has been accounted for by the purchase method of accounting with an effective date of 30 April 2009, being the completion date of the acquisition. The Group has consolidated the results of Bow Valley from the date of acquisition. Prior to the acquisition by the Group, Bow Valley had entered into a sale and purchase agreement to dispose of their interest in the Peik exploration asset for USD 30,000,000. The sale of the asset completed after 30th April 2009.

The fair value allocation to the identifiable assets and liabilities are detailed below. To the extent that the purchase consideration exceeds the aggregate of the fair value of the identifiable assets and liabilities of Bow Valley, then goodwill has been recognised and recorded on the acquisition.

	Acquisition Book Value £'000	Acquisition Fair Value £'000
Intangible exploration and evaluation assets	10,670	–
Property, plant and equipment	181,506	133,547
Available-for-sale financial assets	13,202	9,448
Current assets (excluding cash and cash equivalents)	29,146	29,015
Cash and cash equivalents	3,148	3,148
Trade and other payables	(43,943)	(35,258)
Borrowings and financial liabilities	(110,626)	(118,937)
Deferred tax provision	(16,239)	10,154
Provision for liabilities and charges (Including deferred income)	(6,409)	(7,736)
Net Assets	60,455	23,381
Goodwill arising on acquisition		4,429
Total Consideration satisfied by cash ⁽¹⁾		27,810
Net cash outflow arising on acquisition		
Cash and cash equivalents acquired		3,148
Cash paid		24,662
		27,810

⁽¹⁾ This includes acquisition costs of £3,638,000.

Bow Valley has contributed a profit of £9,159,000 for the year to the results of the Group. If the combination had taken place on the first day of the year, the Group's profit for the financial year attributable to the equity holders of the Company from operations would have decreased to £22,010,000 and Group revenue from operations would have increased to £414,714,000.

29 Analysis of net debt

	At 1 January £'000	Cash Flows £'000	Exchange Differences £'000	Other £'000	At 31 December £'000
2009					
Cash at bank and in hand	36,092	(8,465)	(10,833)	-	16,794
Short term deposits	122,856	(86,443)	14,343	-	50,756
Cash and cash equivalents	158,948	(94,908)	3,510	-	67,550
Borrowing financial liabilities due after one year					
Bank debt	-	18,685	8,736	(118,937)*	(91,516)
Convertible bonds	(115,767)	4,104	-	(8,125)	(119,788)
Net Funds/(Debt)	43,181	(72,119)	12,246	(127,062)	(143,754)
2008					
Cash at bank and in hand	32,632	(7,162)	10,622	-	36,092
Short term deposits	83,328	22,226	17,302	-	122,856
Cash and cash equivalents	115,960	15,064	27,924	-	158,948
Borrowing financial liabilities due after one year					
Bank debt	(75,268)	80,200	(4,932)	-	-
Convertible bonds	(111,989)	4,103	-	(7,881)	(115,767)
Net (Debt)/Funds	(71,297)	99,367	22,992	(7,881)	43,181

* debt assumed on acquisition of Bow Valley

30 Capital commitments

Exploration and Approved Development Commitments

The Group has commitments for future capital expenditure of £186.2m (2008: £258.0m), of which £108.2m relates to intangible assets (2008: £158.0m) and represents the Group's share of obligations under existing Sale and Purchase contracts and Joint Ventures as detailed on pages 108 to 110.

31 Obligations under operating leases

Minimum lease payments under operating leases are as follows:

	Land and Buildings 2009 £'000	Land and Buildings 2008 £'000
Amounts payable on leases due:		
within one year	751	384
in two to five years	1,730	635
after five years	112	215

Rentals due under operating leases are charged against income on a straight line basis over the term of the lease.

32 Related party transactions

a) Key Management Personnel

The Group defines key management personnel as the Directors of the Company. There are no transactions with Directors, other than their remuneration as disclosed in the Report on Directors' Remuneration on pages 47 to 57.

b) Other Related Parties

Service fees of USD 2,055,000 (2008: USD 4,013,000) were received by the Group from Lukoil, the other significant shareholder in YoganOil, the Group's Russian subsidiary. All service fees were on an arms-length basis. At 31 December 2009 USD 43,000 (2008: USD 277,000) was owed by Lukoil to YoganOil in respect of such service fees.

During December 2009, Lukoil also purchased assets from YoganOil and paid USD 2,273,000 for those assets.

During the year the Group did not enter into any related party transactions with the associate (2008: £nil).

33 Pensions

The Group contributes to the personal pension arrangements of Executive Directors and employees up to a specified percentage of salary in lieu of a formal corporate scheme. Total pension contributions in lieu amounted to £709,000 (2008: £681,000) for the year ended 31 December 2009.

A defined benefit scheme exists within a Group subsidiary but on the grounds of materiality this has not been disclosed.

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Company Report of the Auditors

Independent auditor's report to the members of Dana Petroleum plc

We have audited the parent Company financial statements of Dana Petroleum plc for the year ended 31 December 2009 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 46, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of; whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of Dana Petroleum plc for the year ended 31 December 2009.

**Douglas Nisbet (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor**

Aberdeen

26 March 2010

Company Balance Sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed Assets			
Property, Plant and Equipment	36	38	137
Investments in Subsidiaries	37	111,998	111,998
Investment in Associates	38	34,816	34,816
Deferred Tax Asset	39	152	–
		147,004	146,951
Current Assets			
Debtors	40	123,465	59,840
Cash at Bank and in Hand		427	13,358
		123,892	73,198
Creditors: Amounts Falling Due Within One Year	41	(5,755)	(6,312)
Net Current Assets		118,137	66,886
Total Net Assets		265,141	213,837
Capital and Reserves			
Called-up Share Capital	43	13,801	13,034
Share Premium Account	45	136,519	81,066
Other Reserves	45	28,205	28,205
Profit and Loss Account	45	86,616	91,532
Shareholders' Funds		265,141	213,837

The financial statements were approved by the Board of Directors on 26 March 2010 and signed on its behalf by:



Thomas P Cross
Director



David A MacFarlane
Director

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34 Accounting policies

These financial statements have been prepared in pounds sterling under the historical cost convention, as modified by the revaluation of certain Investments and Financial Instruments in accordance with the Companies Act 2006 and applicable accounting standards.

The principal accounting policies adopted by the Company are set out below together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The following accounting policies are applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Dividends

Dividends received are included in the accounts in the period the related dividends are actually received.

Property, plant & equipment (PP&E)

PP&E assets are stated in the balance sheet at cost less accumulated depreciation.

Depreciation is provided on PP&E assets to write off the cost less estimated residual value of each asset over its expected useful economic life on a straight-line basis at the following annual rates:

- Equipment 10% - 25%
- Computer equipment 33%

Investments in associates and subsidiaries

Fixed asset investments in subsidiaries and associates are included in the financial statements at cost less provisions for impairment.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more (or a right to pay less or to receive more) tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Issue expenses and share premium account

Cost of share issues are written off against the premium arising on the issue of share capital.

Foreign currencies

The functional currency for the Company is pounds sterling.

Transactions in foreign currencies during the year are recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates ruling at the balance sheet date.

Pensions

The Company contributes to the personal pension arrangements of Executive Directors and employees up to a specified percentage of salary in lieu of a formal corporate scheme. Contributions in lieu of pensions are charged to the profit and loss account as incurred.

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred.

34 Accounting policies continued

Share based payments

The Company issues both equity-settled and cash-settled share based payments as an incentive to certain key management and staff. Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Monte Carlo model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

35 Employment costs

	2009 £'000	2008 £'000
Wages and salaries	8,981	7,379
Pension costs	443	438
Social security costs	1,157	2,124
	10,581	9,941

Included in wages and salaries is a total net expense of share based payments of £3,940,000 (2008: £1,952,000) of which £3,322,000 (2008: £2,605,000) arises from transactions accounted for as equity-settled share based payment transactions. The carrying amount of the liability at the end of the year for cash-settled share based payment transactions is £1,802,000 (2008: £1,425,000).

The weighted average number of employees (including Executive Directors) during the year was:

	2009	2008
Management	10	10
Technical and administration	22	19
	32	29

Details for each Director, of remuneration, pension entitlements and interests in share schemes are set out on pages 55 to 57.

36 Property, plant and equipment

The movements during the year were as follows:

	Total £'000
Cost:	
At 1 January 2009	1,645
Transfer to subsidiary	(2)
At 31 December 2009	1,643
Depletion and depreciation:	
At 1 January 2009	1,508
Provided in year	97
At 31 December 2009	1,605
Net book value	
At 31 December 2009	38
At 31 December 2008	137

37 Investments in subsidiaries

Subsidiary Undertakings

	£'000
At 1 January and 31 December	111,998

At 31 December 2009, the principal subsidiary undertakings of the Company were:

Name of Company	Country of Incorporation/ Operation	Main Activity
Dana Petroleum (E&P) Limited	UK	Oil & gas exploration & production
Dana Petroleum (North Sea) Limited*	UK	Oil & gas exploration & production
Dana Petroleum (BVUK) Limited*	UK	Oil & gas exploration & production
Dana Petroleum Norway AS	Norway	Oil & gas exploration & production
Dana Petroleum East Zeit Limited*	Cayman Islands/ Egypt	Oil & gas exploration & production
Dana Petroleum East Beni Suef Limited*	Cayman Islands/ Egypt	Oil & gas exploration & production
Dana Petroleum Qarun Limited*	Cayman Islands/ Egypt	Oil & gas exploration & production
Dana Petroleum WAG Limited*	Cayman Islands/ Egypt	Oil & gas exploration & production
Dana Petroleum (Jersey) Limited	Jersey	Financing

* Held by subsidiary undertaking.

The Cayman and Jersey subsidiaries are managed and controlled from the UK and have UK tax residency.

All of the above companies are wholly owned. Further details of subsidiary undertakings are available at the headquarters of Dana Petroleum plc.

38 Investment in associate

	£'000
At 1 January and 31 December 2009	34,816

The Company as at 31 December 2009 owns 27.53% of the ordinary share capital of Faroe Petroleum plc, whose nature of business is oil & gas exploration & production.

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Deferred tax asset

	2009 £'000	2008 £'000
At 1 January	-	-
Change in estimate	152	-
At 31 December	152	-

Deferred tax included in the balance sheet is as follows:

	2009 £'000	2008 £'000
Deferred tax asset		
Accelerated capital allowances	75	-
Other temporary differences	77	-
	152	-

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Debtors

	2009 £'000	2008 £'000
Other debtors and prepayments	2,452	564
Due from subsidiary undertakings	121,013	59,276
	123,465	59,840

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Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Amounts owed to subsidiary undertakings	158	2,263
Accruals and other payables	5,597	4,049
	5,755	6,312

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Financial instruments

An outline of the objectives, policies and strategies pursued by the Group and Company in relation to financial instruments is set out in the Financial Review on page 34 to 35 of this report, and in note 2 on page 70.

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Called-up share capital

See note 24, page 92 to 93 for details of the share capital of the Company.

The Company has provided an unconditional and irrevocable guarantee for the Convertible Bonds ('Bonds') issued in 2007 by Dana Petroleum (Jersey) Limited, a wholly owned subsidiary, the details of which are contained in note 21 on page 86. In accordance with the terms and conditions of the Bonds, the Bonds will be convertible into preference shares of the issuer, which will then be immediately exchanged for ordinary shares in the Company as guarantor.

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Share-based payments

See note 25, pages 93 to 95 for details of the share based payments for the Company.

45 Reserves

	Share Premium Account £'000	Profit and Loss Account £'000	Other Reserves £'000
At 1 January 2009	81,066	91,532	28,205
Retained loss for the year	–	(8,554)	–
Employee share scheme credits	–	3,638	–
New shares issued	55,453	–	–
At 31 December 2009	136,519	86,616	28,205

46 Pensions

The Company contributes to the personal pension arrangements of Executive Directors and employees up to a specified percentage of salary in lieu of a formal corporate scheme. Total pension contributions in lieu amounted to £443,000 (2008: £438,000) for the year ended 31 December 2009.

47 Company profit and loss account

In accordance with the provisions of the Companies Act 2006, the Company has not presented a profit and loss account. A loss for the year of £8,554,000 (2008: £19,897,000) has been dealt with in the profit and loss account of the Company.

48 Obligations under operating leases

Annual commitments under operating leases are as follows:

	Land and Buildings 2009 £'000	Land and Buildings 2008 £'000
Payable on leases which expire:		
within one year	207	186
in two to five years	583	630
After five years	112	215

Rentals due under operating leases are charged against income on a straight line basis over the term of the lease.