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### Record Operating Performance

Turnover increased 45% to £38.6 million (2001 – £26.6 million)  
Net Profit up 22% to £6.8 million (2001 – £5.6 million)  
Net Assets at year-end reached a new high of £137.3 million  
Cash Flow from Operations rose strongly to £16.4 million

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### Rising Production and Record Reserves

Average Production rose 41% to 8,170 boepd (2001 – 5,777 boepd)  
Otter & Caledonia fields brought onstream, further boosting production  
Proven and Probable Reserves increased 10% to a record 116 million barrels

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### Continued Exploration Success

Three further oil and gas discoveries offshore UK and Ghana  
Awarded new acreage and licence extensions in UK, Ghana, Mauritania & Australia  
Finding costs remain low and ahead of target at less than \$2 per barrel

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### Significant Acquisition and Divestment Activity

Completed £48 million UKCS assets acquisition from ENI-Agip  
Closed asset exchange deal with ConocoPhillips to accelerate UK cash flow  
Maximised equity position in Faroe Petroleum ahead of drilling  
Concluded farm-out deals to reduce costs in Australia & Mauritania

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### Positive Outlook for 2003 and 2004

Target production growth of 100% in 2003, to average over 16,000 boepd  
Two gas fields advancing towards development sanction in 2003  
Planning up to eight further exploration wells over next 18 months

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## Europe

Europe is Dana's most important area for revenue and profit generation accounting for around 90% of oil and gas production. Dana aims to maintain a balanced portfolio of high quality, reliable producing assets, new development opportunities and near term exploration drilling in the North Sea and Atlantic Margin. Europe also offers commercially attractive acquisition targets as a result of the ongoing strategic repositioning of major oil companies.



## A Balanced Strategy for Growth

Dana's objective is to create significant value by delivering strong growth in hydrocarbon reserves, production and earnings through exploration, development and acquisition. The Company is achieving this by applying a rigorous technical and commercial approach to all its existing assets and new venture opportunities.

Rising reserves, production, turnover and profit demonstrate the ongoing delivery of this strategy.

# EXPLORATION AND DEVELOPMENT POTENTIAL

## Africa

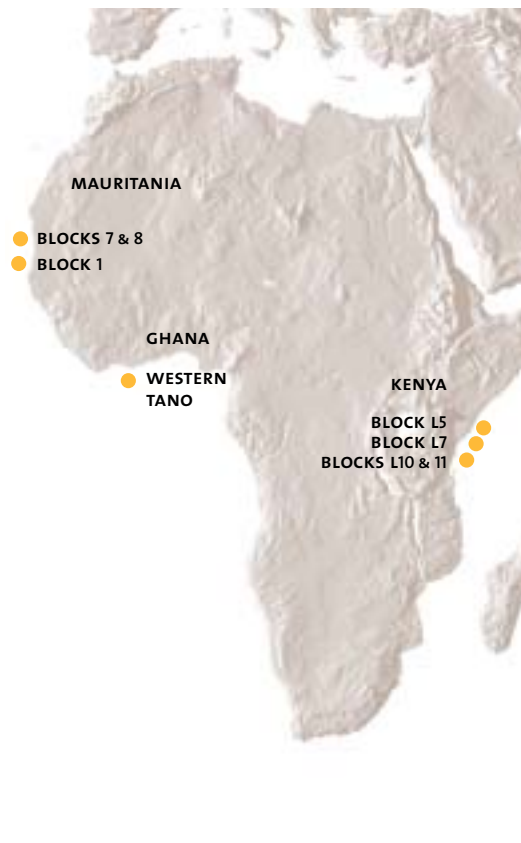
Offshore Africa holds some of the world's most prolific hydrocarbon basins which have delivered a series of giant discoveries with very low finding and development costs. Dana has built extensive licence interests offshore Ghana, Mauritania and Kenya – three potentially high impact regions with a range of exciting exploration prospects emerging.

## Far East

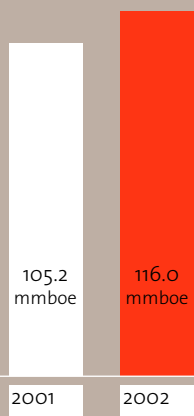
Indonesia and Australia continue to offer material opportunities to the Group with further exploration and appraisal drilling expected during the next year. The planned development of the Ujung Pangkah field, following earlier exploration success, should turn the region into a cash generator by 2006.

## Russia

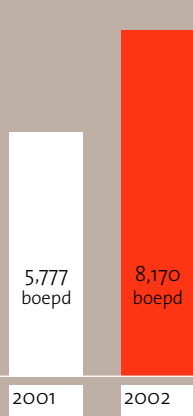
Dana's early entry into the West Siberian basin has left it well positioned to exploit the recent resurgence of industry activity in the region. The development of the vast Salym group of fields offers organic growth, building on the success of the South Vat-Yoganskoye field which continues as a baseline source of oil production.



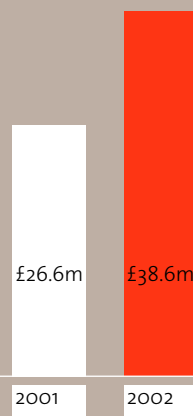
### Reserves +10%



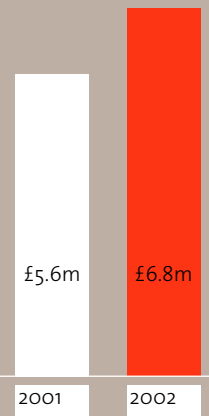
### Production +41%



### Turnover +45%



### Net Profit +22%



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Charles M Smith, CBE, Chairman \*  
Thomas P Cross, Chief Executive  
David A MacFarlane, Finance Director  
Andrew M Bostock, Technical Director  
Angus M Pelham Burn \*  
Colin R Goodall \*

\* Independent Non-Executive Director and member of Audit and Remuneration Committees

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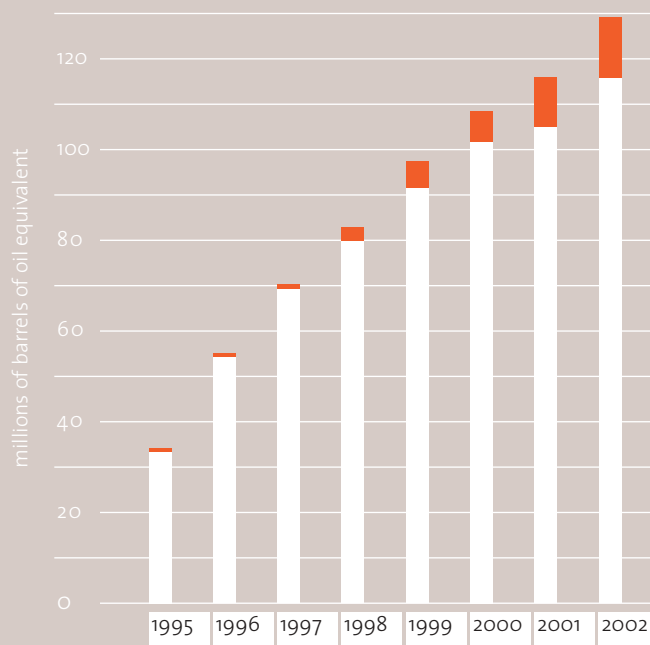
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“2002 was a transforming year for Dana with both production and reserves reaching record highs. The Company more than doubled its number of producing fields, delivering strong revenue growth and a more balanced portfolio of exploration, development and production.”

Charles M Smith, CBE Chairman



Seven years of growth

Oil & Gas Reserves Cumulative Production



TORQUE

1000  
2000  
3000  
4000  
6000  
8000



Dana Petroleum plc is a British independent oil and gas company focused on growth through high-impact international exploration and the development of low risk production from the UK North Sea.

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*Charles M. Smith*

**Charles M Smith, CBE**  
Chairman



*Thomas P. Cross*

**Thomas P Cross**  
Chief Executive

2002 was an excellent year for Dana. A successful acquisitions and divestments programme complemented ongoing field development activity and was enhanced by further exploration success, all resulting in a record operating and financial performance.

Annual production grew by 41% and this delivered record levels of turnover, cash flow and profit in 2002, placing Dana in a strong position to execute its exploration and development work programme during 2003 and 2004. The combination of acquisitions, new discoveries and development of existing fields, led to proven and probable oil and gas reserves rising to an all-time high at year-end.

Dana's 2002 exploration effort focused on high potential areas offshore Africa and commercially attractive opportunities in the North Sea. Extensive new seismic was acquired and four exploration wells were drilled, with three discoveries being recorded, continuing the Company's excellent strike rate. A number of exploration deals were concluded, leading to new acreage and licence extensions in the UK, Ghana, Mauritania and Australia, as well as farm-outs on blocks in Australia and Mauritania to reduce Dana's overall cost exposure. Positive outcomes from ongoing technical work have enabled significant new seismic and drilling work to be planned for offshore Ghana, Mauritania and Kenya over the next two years.

The Board's strategy of ensuring Dana maintains a balanced portfolio of production, development and exploration opportunities is showing clear benefits, with new reserves being added at very low finding cost and strongly rising UK cash flow. The Company is now well positioned for further growth with a balance of attractive exploration prospects, rising production from new developments and a platform to execute further commercially astute acquisitions.

#### Results

Average daily oil and gas production increased by 41% from 5,777 boepd to 8,170 boepd, primarily due to the addition of Hudson, Banff and Otter field interests, during the second half of 2002. Overall, the ratio of oil to gas produced by the Group in the year was approximately 85% to 15%. As a result of increased production and an increased average realised UKCS oil price of \$24.7/boe (2001: \$20.3/boe), turnover for the period increased by 45% to £38.6 million (2001: £26.6 million). Operating profit and operating cash flow were £9.3 million and £16.4 million respectively. Profit after tax and minority interest increased 22% to a record high of £6.8 million (2001: £5.6 million). Earnings per share rose to 0.62 pence.

“Four exploration wells yielded three discoveries, continuing Dana’s successful track record with 11 oil and gas finds from its last 14 wells. Ongoing field developments are further increasing cash flow, which will enable our high-impact exploration plans to be actively pursued.”

In connection with the acquisition of assets from ENI-Agip, the Company put in place a US\$75 million revolving credit facility, which has now been substantially drawn down to fund the acquisition and ongoing development of these assets. Discussions to extend this facility in 2003 are now well advanced.

The Board has carefully considered the financing requirements for Dana’s current exploration and development programme, which, although capital intensive at present, demonstrates the capacity to deliver significant future value. The Directors believe that at this relatively early stage of Dana’s development it is important to apply the Company’s cash resources to leverage those projects which have the potential to yield exceptional returns. Therefore the Directors do not recommend payment of a dividend at this time but will keep this under review as profits build.

Total hydrocarbons produced in 2002 were 3.0 mmbob. A total of 13.8 mmbob of proven and probable reserves were added, due to the net effect of additional discoveries, field revisions and new acquisitions. At year-end, total proven and probable oil and gas reserves therefore increased to a new record level of 116 mmbob. Dana’s balance sheet remains strong with total net assets at 31st December 2002 of £137.3 million (31st December 2001: £130.4 million).

#### Production and Development

The first half of 2002 saw Dana’s existing fields, Claymore, Victor and South Vat-Yoganskoye, continue to provide a sound base of production and cash flow for the Company, much in line with expectations.

However, the Company’s production and development business expanded materially in the second half, following two important North Sea asset portfolio deals with ENI-Agip and ConocoPhillips. Both transactions were in line with Dana’s strategy and involved acquiring current and near term UK production at attractive prices, using a mixture of cash and exploration positions as currency. The results were very positive. By year-end peak production of 15,000 boepd had been achieved, an almost three-fold increase from the levels seen in the first half of the year. Furthermore, Dana’s production now originates from seven different fields thereby lowering the potential impact of any single field event and materially improving the reliability of its cash flow base.

The ENI-Agip deal also provided an entry for Dana into the Northern North Sea, with interests in the Hudson oil field, the Otter oil development and the Brent pipeline system into which both fields now deliver. Dana also gained an interest in the Banff oil & gas field in a core area of the Central North Sea. Since completion, all three fields have exceeded expectations. Hudson oil rates increased following a workover campaign; Otter achieved first production some two months ahead of schedule; and a significant boost to Banff production was achieved with a new infill well. In addition, Dana’s commercial team also renegotiated the crude sales agreements for these fields, achieving improved premiums. The ConocoPhillips deal began to deliver its aim of accelerated UK cash flow in February 2003, as the Caledonia oil field was brought onstream.

#### Exploration and Appraisal

The past year witnessed further North Sea exploration success, with the discovery of the Barbara gas-condensate field and the drilling of a high reach well to examine the Drum structure to the west of the Claymore field. Barbara was encouraging, finding a substantial section of Forties sand reservoir full of rich gas-condensate, but the field will require further appraisal before reserves can be determined. The Drum well, which was drilled from the Claymore platform and found oil in a complex reservoir setting, has been tied directly into the Claymore facilities.

Turning to international exploration, Dana drilled its second well, WT-2X, in the shallow water area offshore Ghana. The well encountered a high quality Maastrichtian age sandstone reservoir containing a relatively viscous oil. Subsequent remapping of this accumulation has demonstrated the potential for oil-in-place volumes of around 200 million barrels. However, future commerciality will be heavily dependent on recovery efficiency which will be the subject of further development studies during 2003. In the deep water area, the focus is on the most significant prospect, known as Fan 6. Indications are that additional 3D seismic may be required in order to lower technical risk and hence optimise the location for this first deep water well.

In Mauritania, Dana has concentrated its resources on the acquisition and interpretation of 3D seismic over its Block 7 and Block 1 licences. Following the identification of a large number of prospects in Block 7, some with stacked geological horizons providing multiple targets for a single well, Dana has elected to proceed into the first drilling phase of the PSC. Consequently a well is being planned for later this year to test the most interesting prospect in Block 7, with reserves potential of several



hundred million barrels. In Block 1, following signature of a farm-out agreement with Energy Africa to cover Dana's costs, a major 3D seismic survey was acquired in the fourth quarter of 2002. This survey is now under accelerated interpretation with the aim of identifying specific drilling targets to enable a decision on the first drilling phase of this PSC by July 2003. This may ultimately lead to a two well drilling programme being undertaken over both blocks.

In Kenya, Dana completed the work programme for the first two year exploration period in October 2002. Presented with very encouraging results, Dana has now elected to proceed into the next two year period, which will see the Company acquiring 2D seismic over each of its four Kenyan Blocks. It is expected that this new survey will be shot in the second half of 2003 to allow sufficient time to make the 'drill-or-drop' decision required by October 2004.

In Indonesia, preliminary interpretation of a transition zone seismic programme acquired in 2002 has confirmed the possibility of a significant western extension to the Ujung Pangkah field. This is likely to be the subject of appraisal drilling during the early part of the field development so that additional reserves, if proven, can be accommodated within the existing core development scheme. Additional exploration prospects are emerging in this PSC and the first of these, the West Sidayu oil prospect, may be drilled before the end of 2003.

The Morangie well offshore Western Australia, in which Dana negotiated a complete cost carry, proved non-commercial. However, the presence of significant volumes of residual oil and excellent quality reservoir has provided sufficient encouragement for the joint venture group to extend the licence by several years and continue exploration in this area. Further 3D seismic is planned this summer.

#### Acquisition & Divestment

The Company continued to prioritise portfolio management in 2002. Dana's business development team demonstrated its proficiency with the negotiation and closure of two UKCS production and development deals, with ENI-Agip and ConocoPhillips. A key element in both transactions was the use of exploration interests by Dana as part of the consideration. This strategy has the dual benefit of providing Dana with a competitive edge and reducing the cash element paid by Dana for the acquired production. The Company also took the opportunity in December 2002 to increase its stake in the new UK holding company for Føroya Kolvetni, named Faroe Petroleum Limited, to the maximum available stake prior to the 2003 Faroes drilling programme.

#### Board Development & Corporate Governance

The Directors recognise that Dana is a growing public company and therefore aim to set and maintain high standards for managing the Group's assets, business development and corporate governance.

The recommendations contained in the Higgs and Smith Reports on corporate governance, which were issued in January 2003, have been reviewed in detail and Dana exhibits a high level of compliance.

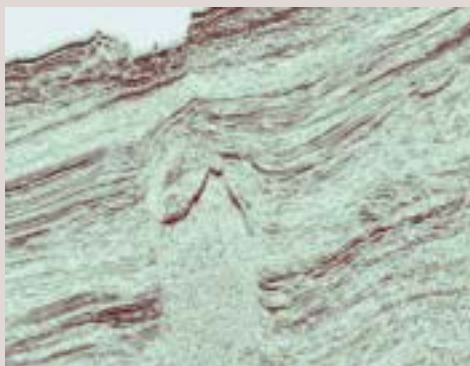
Once the revised Combined Code has been finalised and published, the Board will consider any minor adjustments which are appropriate for the Company.

In June 2002, Mr Colin Goodall joined the Board as a non-executive director following a career spanning 24 years with the BP group. In addition to his normal board duties, Mr Goodall also serves as a member of Dana's Audit and Remuneration Committees. Mr David MacFarlane joined the Board as Group Finance Director, in November 2002. Mr MacFarlane holds more than 20 years' experience in financial control and management in the upstream oil and gas business. Both Colin and David have already made very valuable contributions to the business.

In December 2002, it was agreed that Mr Graham Stewart would step down from the Board in order to become Chief Executive of Faroe Petroleum Limited, in which Dana now owns a direct shareholding. We thank Graham for his excellent work at Dana over recent years and we are pleased that he will still be adding value to the Group through his important role at Faroe Petroleum.

#### Strategy

Dana's strategy is to create significant, shareholder value by delivering strong growth in hydrocarbon reserves, production and earnings. In the Board's experience, this is best achieved by a balanced approach. Dana therefore combines a portfolio of exploration opportunities, which each have the potential for material step increases in reserves, with the exploitation of cost effective production and development assets which generate strong, stable cash flow to finance the exploration programme.



#### Dana's strategy has four key elements:

**1. Balancing investment** in high-impact, medium risk oil and gas exploration, with value enhancing acquisitions, and investment in low risk, low cost oil and gas production and field developments;

**2. Maximising the probability of exploration and development success** by reducing the technical risk associated with individual investments to a minimum and by ensuring the Company holds a portfolio of attractive exploration prospects and development opportunities;

**3. Commercialising exploration success** with a bias towards asset trading for existing or near-term production when this allows accelerated value extraction; and

**4. Operating a sound financial framework** which seeks to ensure that the exploration programme can be financed from cash flow generated by the production portfolio.

#### OUTLOOK

##### Exploration and Appraisal

North Sea exploration activity in 2003 will include a proposed well to test an undrilled fault block adjacent to previous discoveries in the Melville area, to the South of the Hudson field. Faroe Petroleum, in which the Company now holds a 20.6% interest, will drill the Marimas well this summer to test multiple prospects in Licence 002 of the Faroe Islands, with potential reserves of up to 500 mmbob. The ENI-Agip/Faroe Petroleum joint venture has already identified further prospects in its two Faroes licences and Dana's shareholding provides the Company with a stake in this upside.

Looking ahead, following the completion of intensive 3D seismic programmes this year, deep water drilling is scheduled in Mauritania and Ghana. Planning is also in progress for Dana's first seismic programme offshore Kenya. Further wells are also being considered in Europe and the Far East, such that by end 2004 Dana can expect to participate in a total of up to eight additional exploration wells.

##### Production and Development

Production is expected to grow further during 2003 as the Caledonia field reaches full capacity and with the completion of two additional production wells on Otter by mid year.

Development sanction is anticipated this year for two new developments, the Cavendish gas field in the Southern North Sea and the Ujung Pangkah gas field in Indonesia, both of which should contribute significantly to production targets in 2005. Commercial discussions have been moving forward positively between neighbouring coventure groups in the Greater Kittiwake Area of the Central North Sea area and this should enable plans to be advanced for development of the Goosander field.

Looking further ahead, Dana now has, through both discovery and acquisition, a substantial inventory of development opportunities which will provide the basis for organic production growth in future years. This includes several potential field developments which will be subject to further technical study and commercial negotiation in 2003. In the case of new UKCS projects, the current complex ownership structures prevalent can often hinder progress towards development sanction. However, the Company

is working hard to speed up timetables and is optimistic that the current divestment programmes, initiated by the majors, may be a catalyst for the acceleration of projects of this type.

##### Commercial Transactions

Dana will continue to actively pursue new opportunities, particularly production and development assets in its home base of the UK North Sea, where attractive targets are being created by the asset rationalisation of major oil companies. In order to maximise future potential, Dana will also seek opportunities to gain early entry into new exploration areas which offer exceptional upside. As the Company's portfolio builds, both acquisition and divestment opportunities will arise from within the existing asset base. These will be exploited where cash or other forms of value can be added quickly and efficiently.

In summary, Dana has a solid foundation and continues to perform well against a background of increasing production and healthy crude oil prices. These factors, combined with a strong balance sheet, sound financial management and a portfolio of high quality opportunities will allow Dana to continue to grow over the coming years. The future success of the Company depends on the commitment, enthusiasm and hard work of the Dana team. On behalf of the Board, we would like to thank all staff for their important contributions in 2002 and commend to shareholders their technical excellence and dedication to the Company.

27 March 2003

## Europe



“Dana saw a step-change in its North sea business during 2002 with the completion of two acquisitions from major oil companies and further exploration success maintaining our 100% exploration hit-rate in the region over the past few years. With organic growth expected through near-term developments and attractive acquisition opportunities constantly under review, Europe will continue to be the major contributor to revenue generation.”

### Northern North Sea

Dana’s position in the Northern North Sea was established in 2002 through the acquisition of a package of UK interests from ENI-Agip. This included equity in the Hudson field, the Otter field development and associated interests in the Brent pipeline system and Sullom Voe Oil Terminal on the Shetland Islands.

In the Hudson oil field (Dana 19.5%), a successful well workover campaign resulted in the field producing above expectation in the period since acquisition, averaging 17,099 bopd (3,334 bopd net Dana). Considerable upside remains in and around the Hudson field. In particular, a well is planned in 2003 to test an undrilled fault block with significant reserves potential adjacent to previous discoveries in the Melville area, located to the south of the main Hudson field. If successful, it is likely that the Melville field would be developed as an extension to the existing Hudson subsea facilities.

The Otter oil field (Dana 19.0%) has been developed as a sub-sea tie-back to the nearby Eider platform with export via the Brent pipeline system to the Sullom Voe Terminal. Production from the first well commenced in October 2002, some two months ahead of schedule, with rates peaking at up to 19,000 bopd by the end of the year. With the completion of two further production wells and two water injection wells in the first half of 2003, production is expected to increase to plateau rates of around 30,000 bopd (5,700 bopd net Dana).

### Central North Sea

Further North Sea exploration success was recorded in 2002 with the discovery of the Barbara gas-condensate field in Block 23/16c (Dana 27.0%). At a depth of around 8,500 feet, the 23/16c-8 exploration well encountered a total of over 270 feet of Forties sandstone, sealed against the East flank of a salt diapir, full to the base of the sand with rich gas-condensate. Since a hydrocarbon-water contact was not encountered, determination of reserves and the commerciality of the find will be subject to further appraisal drilling, probably in 2004. In the light of this discovery, the Barbara co-venturers successfully applied for and were awarded neighbouring Block 23/11 in the 20th UKCS licencing round.

The Claymore oil field (Dana 7.52%) continued its role as an important producing asset for Dana through 2002, averaging 26,790 bopd (2,015 bopd net Dana). The year also saw Claymore co-venturers begin to benefit from the drilling rig upgrade carried out in 2001. The C75 well was drilled into a previously inaccessible crestal part of the field and was successfully brought onstream in May at initial rates of around 6,000 bopd. A well was also drilled from the Claymore platform to examine the Drum area, located to the West of the main Claymore field. This technologically challenging well, which was drilled to a depth of nearly 20,000 feet with a horizontal step-out of over 10,000 feet, was finally completed in January 2003 after resolving a number of mechanical drilling issues associated with the ambitious nature of the well design. Although the primary drilling target was water bearing, oil was discovered within the underlying Cretaceous age



Leek formation. The well has consequently now been completed as a producer and tied in to the Claymore facilities. Further main field infill drilling targets have been identified for drilling in 2003.

Average 2002 production from the Banff field (Dana 12.4%), in the period since acquisition, was 12,544 bopd oil and 32.9 mmscfpd gas (2,220 boe/d net Dana). Production has since been significantly boosted by the completion in December 2002 of infill well B5, which increased field oil rates to over 20,000 bopd. Results from this well are sufficiently positive for the Banff co-venturers to be considering a further production well in late 2003. Several opportunities remain to realise significant additional value from the Banff area. Firstly, a potential development of the nearby 29/2a-2 gas-condensate discovery (Dana 13.5%) through the Banff facilities, secondly there is remaining exploration potential with the MacDuff and Deep Banff prospects, and finally a number of technical and commercial restructuring options could enhance returns with respect to oil and gas export.

Dana's Caledonia oil field interest (25.8%) was acquired from ConocoPhillips in May 2002, since which time the field has been successfully developed as a sub-sea tie-back of a single horizontal well to the Britannia platform. Although the well and subsea project had been successfully completed by the end of the year, some delays arose with the necessary modifications on the Britannia platform and the field came onstream in February 2003. The well is now on production averaging rates of around 8,000 bopd (2,060 bopd net Dana).

Elsewhere in the Central North Sea, options to advance a number of other discoveries towards development are being reviewed. Commercial discussions regarding the exploitation of the Goosander oil field (Dana 37.4%) via the Shell operated Kittiwake platform continue, and technical studies on the Enoch oil field (Dana 11.0%) are ongoing with a view to a potential tie-back to nearby processing and transportation infrastructure.

#### Southern North Sea

Production from the Victor gas field (Dana 10.0%), which is driven largely by demand from the gas buyer, British Gas Trading, averaged 49.3 mmscfpd gas (4.9 mmscfpd net Dana) in 2002. This reduction in off-take compared to previous years reflects the use by the gas buyer of a significant carry forward position, built up in previous years, to reduce its nominations to zero during the summer months when spot gas could be purchased at lower cost than available under the Dana life-of-field sales contract. The carry forward position has now been largely eliminated. To protect longer-term deliverability of the Victor field, which is due to continue in production until 2012, a well workover to replace tubing in the JD03 well, the best producer in the field, was successfully completed in September.

Good progress has been made towards establishing a commercially viable development of the Cavendish field (Dana 25.0%). The development is likely to feature a small wellhead platform with export via either the Murdoch or Trent field infrastructure. Project sanction is being targeted for the second half of 2003.

In the Dutch sector of the Southern North Sea, sanction of the F16-E gas development (Dana 2.2%) should follow once discussions regarding the transportation and sale of F16-E gas are completed. These discussions have increased in complexity following the deregulation of the gas industry in the Netherlands. Elsewhere in the Netherlands, the gas discoveries at A15-3 (Dana 9.0%) and B17a-6 (Dana 8.8%) are being considered for a possible joint development with other similar gas accumulations in the area. A further exploration well is also expected to be drilled in Block A15 in 2004 to test a deeper Triassic target.

#### Atlantic Margin

Following the discovery by Amerada Hess of the nearby Marjun field in the Faroe Islands, considerable geoscience work was completed in 2002 resulting in the ENI-Agip/Faroe Petroleum joint venture firming up its first drilling location in Licence 002. Operator, ENI-Agip, has now contracted a rig to drill the Marimas exploration well in June 2003, to test multiple prospects currently thought to have reserves potential of up to 500 mmbae. Dana's interest in the Faroes is held through its 20.6% stake in Faroe Petroleum, which currently holds 7% of Licence 002 and Licence 005 with an option to increase its interest in each to 22% ahead of drilling.

Studies conducted in Licences 5/95 and 8/95 (Dana 8.4%) offshore West of Ireland concluded that there is no remaining prospectivity in the area. Agreement has consequently been reached with the Irish authorities for relinquishment, which is expected to be formally concluded in 2003.

## Africa



"Offshore Africa positions Dana with substantial growth potential. The vast acreage and prospectivity of the areas under licence give us important strategic holdings across a range of geological provinces. Following two discovery wells in shallow water Ghana and the extensive acquisition and interpretation of high definition seismic, we will soon be ready to drill the first of our large, deep water targets offshore Mauritania."

### Mauritania

Following the success of Woodside Energy's 2001 Mauritanian drilling campaign which resulted in the discovery of the Chinguetti field in offshore Block 4, the hydrocarbon potential of the region was further demonstrated in 2002 with the discovery of the nearby Banda field and a successful two-well appraisal of the Chinguetti field which is now expected to lead to the country's first oil development.

Offshore Northern Mauritania, Dana continued its regional geological studies in Blocks 7 and 8. The Company concentrated its resources on the interpretation of the 3D seismic survey which was acquired over Block 7 (Dana 80.0%). Following the identification of a number of very significant exploration prospects, many indicating stacked reservoir horizons, the original Block 7 co-venturers elected to enter into the first drilling phase of the PSC. Woodside, which had an option to join the group in the next phase, decided not to proceed. Preparations are now underway to drill a well before the end of 2003 to test an exciting prospect located in the South of Block 7, which has reserves potential of several hundred million barrels.

Interpretation of the infill 2D seismic survey acquired over Block 1 (Dana 48.0%) in 2001 has resulted in an upgrading of the Block's potential. Consequently, following signature of a farm-out agreement with Energy Africa that covered Dana's costs, a major 1,340 km<sup>2</sup> 3D seismic survey was acquired offshore Southern Mauritania in the fourth quarter of 2002 with the aim of firming up specific drilling targets in Block 1. The data from this survey is now being fast-track interpreted to allow a decision to be taken on the first drilling phase of the PSC by July 2003.

### Ghana

Dana drilled its second discovery well, WT-2X, in the Western Tano Contract Area (Dana 90.0%) in 2002. Whilst the quality of the lower Albian age sandstone target proved disappointing, the well discovered 75 feet of high quality oil bearing sandstone reservoir in a shallower Maastrichtian age formation at a depth of around 6,100 feet. Subsequent remapping of this accumulation has demonstrated the potential for significant oil-in-place volumes of around 200 million barrels. Oil samples recovered from the well have shown the crude to be relatively viscous. Therefore, future commerciality will depend on how appropriate technology can be applied to maximise recovery efficiency and this will be the subject of development studies to be conducted in 2003.

Good progress was made in 2002 in understanding the exploration potential of the deepwater region of the Western Tano licence, with the focus now largely on the most significant prospect currently identified, known as Fan 6. With some of the highest potential oil-in-place volumes in the area, this prospect also exhibits good apparent reservoir continuity and evidence of direct hydrocarbon indicators on the 3D seismic data. In line with its strategy, Dana is considering a plan to further reduce technical risk ahead of drilling, and thus increase the chance of a first deepwater discovery, by shooting a further 3D seismic survey in 2003 over a previously unsurveyed part of Fan 6. This would enable an optimum drilling location to be selected for 2004.

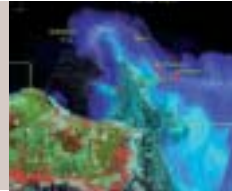
In recognition of the importance of Dana's exploration work to date and the value of taking forward the deepwater work programme, the Ghanaian authorities have offered Dana a three year extension of the term of its exploration licence, to mid 2007.

### Kenya

Dana has now successfully completed the agreed work programme for the first two-year exploration period, which ended in October 2002, for each of the four exploration Blocks which it operates offshore Kenya, namely L-5, L-7, L-10 and L-11 (Dana 80.0%). This involved a thorough study of all available historic geological and seismic data for the area under licence, which represents a vast (45,000 km<sup>2</sup>) under-explored Cretaceous-Tertiary basin in water depths of 200 to 2000 metres. The study identified seven potential 'play' types, both structural and stratigraphic, from which around 100 early stage exploration prospects have been characterised to date.

Presented with these very encouraging results, Dana elected to proceed into the next two-year exploration period in Kenya, during which the Company plans to acquire a minimum of 500 km of 2D seismic over each block. It is likely that Dana will shoot this new survey in 2003 to allow sufficient time to evaluate the new data and make the 'drill-or-drop' decision required by October 2004.

## Far East



"We expect the start of development of the Ujung Pangkah gas field to herald a new phase of activity in the Far East. With the prospect of this area becoming a cash source in the next three years, we anticipate building upon our Pangkah and Sidayu exploration successes with further drilling in the region."

## Russia



"Russia holds some of the world's largest untapped oil reserves with very low cost development opportunities. The start of production from the Upper Salym field is catalysing activity in the wider group of Salym fields, the development of which should add significant value to Dana's existing oil production business at the South Vat-Yoganskoye field."

### Indonesia

2002 saw a number of key milestones achieved towards development of the Ujung Pangkah gas field (Dana 12%), discovered by the Pangkah co-venturers in 1998. This was despite some delays caused by a major government reassessment of the roles of state oil bodies within the Indonesian oil and gas industry. The Ujung Pangkah Plan of Development was approved by Pertamina in August. It features up to three minimum facility offshore wellhead platforms with export via a 16" pipeline to an onshore gas processing facility. This paved the way for the signature in December of a Heads of Agreement with PLN, the regional electricity utility, to purchase the gas from the field. This agreement is a precursor to the final Gas Supply Agreement which is expected to be signed by mid 2003, allowing field development to commence in the second half of the year and first gas to be produced by 2005.

Preliminary interpretation of the transition zone seismic survey, acquired in very shallow water in 2002, has increased confidence in the presence of a significant western extension to the Ujung Pangkah field. This will be the subject of appraisal drilling during the early part of the field development, probably in early 2004, so that any additional proven gas reserves can be accommodated within the existing core development scheme.

In addition, an extensive re-evaluation of the remaining exploration potential of the Pangkah PSC was carried out in 2002.

This has resulted in the remaining exploration prospects being ranked for drilling, with the first of these, the West Sidayu oil prospect, expected to be drilled before the end of 2003. Once the results of this well are known, the development options for the existing Sidayu oil field and the considerable volumes of oil previously found underlying the main Ujung Pangkah gas field, will be determined.

### Australia

An exploration well to test the Morangie prospect in Exploration Permit WA-226-P (Dana 30.0%) in the Perth Basin was drilled in the fourth quarter of 2002. The well found significant residual oil shows within an excellent quality sandstone reservoir, but no producible hydrocarbons. Although not a commercial discovery, these results demonstrate that all except one of the ingredients necessary for a significant oil discovery are present in WA-226-P, the remaining challenge being to find a structure with a competent seal. Recognising the higher risk associated with this prospect, in line with strategy, Dana negotiated attractive farm-out terms with Origin Energy and Voyager Energy which saw all of Dana's costs associated with the well borne by the new entrants.

Encouraged by the Morangie oil shows, the presence of additional large undrilled prospects in WA-226-P and the successful appraisal of the Cliff Heads discovery to the south, the co-venturers have now extended the WA-226-P Permit until February 2006 and plan to acquire a 500 km<sup>2</sup> 3D seismic survey in mid 2003 to look for further drilling targets.

### Russia

Production from the South Vat-Yoganskoye oil field averaged 2,715 bopd during 2002. This field is operated by the Yoganoil joint venture company, in which Dana holds an 80% interest. Consideration is being given to a third phase of development drilling, featuring new wells in the western area of the field.

Development of the initial phase of the Salym oil fields, 50% owned and operated by the Evikhon joint venture company, in which Dana has a 10% interest, progressed well during 2002 and test oil production was established before year-end. Six wells are now available for production from the first field, known as Upper Salym, and a temporary rail export system is under construction. This is expected to be completed in the second quarter of 2003 and will be used to facilitate production from the field in the period before final access to the export pipeline system has been agreed. Once hooked up to the export pipeline, the drilling of additional wells is expected to increase the field's production capacity to 14,000 bopd by end 2004.

With recent geo-political events and improvements in the investment climate in Russia, further efforts will be applied this year to energise the development of the Sortymskoye oil field. The project is operated by the Yuganskoil joint venture company, in which Dana holds a 30% interest.



**David A MacFarlane**  
Finance Director

27 March 2003

#### Overview

Turnover, profitability and future cash flow generation have been significantly enhanced by the 2002 additions to Dana's producing portfolio. Looking forward, the cash flow generated by these and other assets, leave the Company well positioned to meet our forward work programmes and poised for further growth.

#### Turnover

Annualised average production for the year was 8,170 boepd (2001: 5,777 boepd), with 67% delivered from the UKCS (2001: 57%). The Group realised an average price of \$19.45 per boe during 2002 (2001: \$18.53 per boe), constrained by the much lower domestic market prices achieved in Russia. The realised price for UKCS production was \$24.69 per boe (2001: \$20.3 per boe). Consequently, turnover increased to a record level of £38.6m (2001: £26.6m) an increase of 45%.

#### Operating Profit

Operating profit improved to £9.3m (2001: £8.2m) with DD&A provided on a unit of production basis increasing to reflect both the increase in production and the higher decommissioning liabilities associated with UKCS assets. At the end of the year the Company was also in a net over lifted production position, and in compliance with the new accounting standard FRS 18, which requires adoption of the Statement of Recommended Practice issued by the Oil Industry Accounting Committee, £2.3m is reflected in cost of sales. The 2001 results have been restated accordingly. Administrative expenses, net of exchange gains or losses, remained broadly in line with 2001.

### Profit for the Year

The increase in the net interest charge in the year of £1.0m (2001: £0.5m) reflects the impact of the new debt drawn down to fund the acquisition of the ENI-Agip assets in October 2002. The Company continues to be in a non Corporation Tax paying position in the UK and has conservatively elected not to recognise its deferred tax asset of £5.4m (2001: £6.1m) although entitled to do so under accounting standard FRS19. The majority of the tax charge of £1.3m (2001: £1.2m) relates to the tax payable per the acquisition agreement on the operating performance of the Hudson and Banff assets from the end of July, the date risk of ownership passed to Dana, and the date of legal completion in October. The minority interest in the profit for the year reduced mainly due to the exchange rate translation effects, rather than any underlying change in the profitability of the Russian business.

The resultant profit for the year of £6.8m (2001: 5.6m) represents a 22% improvement over the previous year, and a record result for the Company.

### Balance Sheet

Dana's total capital expenditure increased significantly during 2002, to £92.4m (2001: £17.6m). This includes £6.0m of decommissioning provisions in respect of the new fields. In cash terms, £48.4m was invested on the acquisitions, £18.1m on further production and development

projects, and £12.8m on exploration and appraisal activity. Investments increased in total by £2.4m, being the cost to Dana of exercising its stock options and a further equity contribution to secure its current 20.6% interest in Faroe Petroleum. Overall net debt increased by £64.5m to fund this expansion of activity, the main source being a new debt facility with the Bank of Scotland. The increase in creditors at the year end, is due to the inclusion of an estimate of the amount of current bank debt repayable in 2003 and to trade creditors outstanding from West African exploration activity undertaken in the latter part of the year.

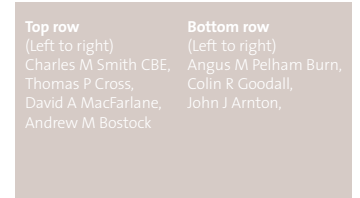
### Cash Flow

Group net cash inflow from operations rose strongly to £16.4m (2001: £4.3m). After modest adjustment for a net interest credit and other tax paid, £79.6m was invested on net capital projects and investments. The Group's net cash outflow before financing was therefore £64.6m (2001: £15.1m). Underpinning this is a new US\$75m revolving credit facility with the Bank of Scotland, which replaced the previous debt facility, and which has been substantially drawn down at the year end. This is the major element of the year end net debt position of £46.3m (2001 net funds: £18.2m). The December 2002 review of this facility, resulted in an increased borrowing base capacity of over US\$83m and discussions are in progress to agree an increased facility and revised terms for 2003.

### Risk Management

With rising crude production from an expanded portfolio, Dana's financial performance will become increasingly sensitive to oil price variation. To mitigate this for the year ahead, a series of oil swaps for 2003 have been entered into, with the result that 42% of UKCS crude production has been hedged at an average price of \$24.53 per bbl. The opportunity has also been taken to enter into a US\$ interest rate swap to fix the interest rate cost through to February 2004 on approximately one third of the new bank debt.

The Board closely monitors the risks associated with oil price, interest rate and currency fluctuations and seeks to manage these uncertainties on an ongoing basis.



**Top row**  
(Left to right)  
Charles M Smith CBE,  
Thomas P Cross,  
David A MacFarlane,  
Andrew M Bostock

**Bottom row**  
(Left to right)  
Angus M Pelham Burn,  
Colin R Goodall,  
John J Arnton,

### Charles M Smith CBE \*†

Chairman and Non-Executive Director

Charles Smith joined Dana in 1995 and has chaired the Company through its formative years since flotation on the London Stock Exchange in 1996. From 1985 to 1995, Mr Smith was Managing Director of Chevron (UK) Ltd and he previously headed Gulf Oil's operating companies in West Africa. He is former President of the UK Offshore Operators Association (UKOOA) and of the Institute of Petroleum, receiving the honour of the CBE for his contribution to the petroleum industry. Mr Smith, a Chartered Accountant, also chairs Dana's Audit Committee.

### Thomas P Cross †

Chief Executive Officer

Tom Cross joined Dana in 1994 upon its merger with TM Oil where he was a founding shareholder. Mr Cross, a Chartered Director and Petroleum Engineer, has held senior positions with Conoco, Thomson North Sea and Louisiana Land and Exploration. From 1990 to 1993 he was Director of Engineering at the UK's Petroleum Science and Technology Institute. Mr Cross is a former Chairman of the Society of Petroleum Engineers, an advisor to BBC Radio on oil affairs and a board member of BRINDEX, the Association of British Independent Oil Companies. He is also non-executive Chairman of AUPEC, a global advisory group on energy policy and economics.

### David A MacFarlane

Finance Director

David MacFarlane, a Chartered Accountant, joined Dana in November 2002. He has more than 20 years experience in financial control and management in the upstream oil and gas business. Between 1985 and 1993 he was Finance Director of the MOM Group, later becoming Finance Director for two key subsidiaries of the John Wood Group plc. He joined Dana from Amerada Hess where during the last six years he has headed finance for its fast growing international exploration and production group and more recently, for its substantial UK production business.

### Andrew M Bostock

Technical Director

Andrew Bostock joined Dana's senior executive team in 2000. Mr Bostock has over 17 years experience in oil and gas operations, asset management and business development. A graduate of Oxford University, he began his career as a Petroleum Engineer with Shell International. He subsequently held senior technical, commercial and management positions with Enterprise Oil, Talisman Energy and Venture Production, where he was General Manager North Sea, before joining Dana. Mr Bostock was appointed to the Dana Board as Technical Director in August 2001.

### Angus M Pelham Burn \*†

Non-Executive Director

Angus Pelham Burn was appointed to the Dana Board in 1999, bringing a wealth of experience in international business development and financing. Mr Pelham Burn served as a main board Director of the Bank of Scotland from 1977 to 2000. From 1975 to 1998 he was a Director of The Scottish Provident Institution, holding the offices of Deputy Chairman and Chairman between 1991 and 1998. Mr Pelham Burn also held the post of Chairman of Aberdeen Asset Management plc between 1992 and 1999. He chairs Dana's Remuneration and Nominations Committees.

### Colin R Goodall \*

Non-Executive Director

Colin Goodall joined the Dana Board in 2002 following a successful 24 year upstream oil career with the BP group. After qualifying as a Chartered Accountant, Mr Goodall worked in Africa for a number of companies, including Anglo American Corporation, and became a partner at Touche Ross. He joined the finance team at BP in 1975, later becoming the first Chief of Staff within the BP group. From 1995 to 1999 he served as Chief Financial Officer of BP Europe and then as BP's senior representative in Russia. Mr Goodall has also been a lecturer and examiner for London University in the areas of management and finance.

### John J Arnton

Company Secretary and Group Legal Manager

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

\* Independent Director and member of Audit and Remuneration Committees

† member of Nominations Committee



The Directors submit their report together with the audited Group financial statements for the year ended 31 December 2002.

#### Business Review and Future Activities

The principal activities of the Group are oil and gas exploration and production. The Chairman's and Chief Executive's Review and Review of Operations describe the significant developments in the business of the Group during 2002 and its future prospects.

#### Results, Dividends and Retentions

The Group profit for the year after taxation and minority interests amounted to £6,810,000 (2001 – £5,583,000). The Directors do not recommend the payment of a dividend.

#### Events since the Balance Sheet Date

There are no significant post balance sheet events that require disclosure.

#### Corporate Governance

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code provisions set out in Section 1 of the Combined Code issued by the Financial Services Authority.

In addition, the recommendations contained in the Higgs and Smith Reports on corporate governance, issued in January 2003, have been reviewed in detail, and the Company exhibits a high level of compliance. Once the revised Combined Code has been finalised and published, the Board will consider any minor adjustments that may be appropriate.

#### Statement by the Directors on Compliance with the Provisions of the Combined Code

The Company has been in compliance with the provisions set out in Section 1 of the Combined Code throughout the year, save as with respect to Code Provision D.3.1 which requires a minimum of three Non-Executive Directors to make up the Audit Committee. Following the resignation of Mr P Taylor on 13 August 2001 there were only two Non-Executive Directors until the appointment of Mr C R Goodall on 14 June 2002 when he was also appointed to the Audit Committee.

The Board will continue to review and report on the effectiveness of the Group's system of internal controls as detailed on pages 17 to 18. The Board will continue to review the need for an internal audit function, which at present is not required given the scale of the Group's operations.

#### The Workings of the Board and its Committees

##### The Board

The Board is responsible to shareholders for the proper management of the Group. The Board currently comprises the independent Non-Executive Chairman, the Chief Executive, the Finance Director, the Technical Director and two further Non-Executive Directors. Brief biographies appear on page 14. These demonstrate a range of experience and sufficient calibre to bring independent judgements on issues of strategy, performance, resources and standards of conduct, which are vital to the success of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out on page 19 and a statement on going concern is given on page 18.

The Board has a formal schedule of matters specifically referred to it for decision. All

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

The Board meets regularly, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, considering major investment opportunities and reporting to shareholders. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. The Chairman ensures that the Directors take independent professional advice as required.

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

#### Remuneration Committee

Full details of the Remuneration Committee, the Company's policies on remuneration, service contracts and compensation payments are given in the Report on Directors' Remuneration on pages 20 to 25.

#### Audit Committee

The Audit Committee, which is chaired by Mr C M Smith, comprises the Non-Executive Directors and meets not less than three times annually. The Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Chief Executive and the Finance Director.

The Audit Committee is responsible for reviewing a wide range of matters including the half-year and annual accounts before their submission to the Board and monitoring the controls that are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

#### Nominations Committee

The Nominations Committee was formally established by the Board on 14 March 2002, and is responsible for considering the making of appointments or re-appointments to the Board. This Committee comprises Mr A M Pelham Burn (Chairman), Mr C M Smith and Mr T P Cross and meets not less than once annually. The Company is not obligated to have a Nominations Committee under the Combined Code (Provision A.5.1), as a result of the relatively small size of the Board, but the Directors have nevertheless elected to form one.

#### Relations with Shareholders

Communications with shareholders are given high priority. There is regular dialogue with institutional shareholders including presentations after the Group's preliminary announcement of the year end results and at the half year. The Company has its own web-site ([www.dana-petroleum.com](http://www.dana-petroleum.com)) on the internet for the purposes of improving information flow to shareholders as well as potential investors.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Board aims to ensure that the Chairmen of the Audit, Remuneration and Nominations Committees are available at Annual General Meetings to answer questions and explain details of resolutions to be proposed at the Annual General Meeting.

#### Internal Control

The Board confirms that during 2002 it maintained the procedures necessary to implement the 'Internal Control: Guidance for Directors on the Combined Code' and that these procedures are still in place.

The Board is responsible for establishing and maintaining the Group's system of internal control. Internal control systems are designed to meet the particular needs of the organisation concerned and manage rather than eliminate the risks to which it is exposed. By their nature such systems can provide reasonable, but not absolute, assurance against material mis-statement or loss. There is a continuous process for identifying, evaluating and managing the significant risks faced by the Group and the key procedures, which the Directors have established with a view to providing effective internal control, are as follows:

- **Management structure**

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board and each Executive Director has been given responsibility for specific aspects of the Group's affairs. The Executive Directors together with key senior

executives constitute the Management Committee, which meets regularly, to discuss day-to-day operational matters.

- **Quality and integrity of personnel**

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

- **Identification of business risks**

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks.

- **Budgetary process**

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

- **Investment appraisal**

Capital expenditure is regulated by budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Reviews are carried out after an acquisition is complete, and for some projects, during the acquisition period, to monitor expenditure; major overruns are investigated. Due diligence work is carried out if a business or significant assets are to be acquired.

- **Audit Committee**

The Board has delegated periodic review of the system of financial internal control to the Audit Committee which has reported its conclusions to the Board during the year. The Board has also consulted the Audit Committee, during the year, on other internal control matters.

- **Annual review and assessment**

The Board undertakes a detailed annual review and assessment of the effectiveness of the Group's system of internal control. A review took place in December 2002 and addressed internal control issues generally and, more specifically, financial, operational and compliance controls and risk management. The review was conducted by the Board and included reports from, and interviews with, key operating personnel.

The Board has considered the need for an internal audit function but has decided that, given the size of the Group and the system of controls in place, it is not required at present. The Board will review this decision again next year.

#### Substantial Shareholdings

The Company has been notified of the following shareholdings of 3% or more in the issued share capital of the Company at 9 June 2003:

	No. of shares	% of issued share capital
MHR Advisors LLC	218,228,178	19.69
Standard Life Assurance Co	47,857,765	4.32
Jupiter Asset Management Legal & General Investment Management	40,776,324	3.68
UBS Global Asset Management	37,264,021	3.36
	33,597,259	3.03

#### Composition of Group

Details concerning the principal subsidiary undertakings are given in note 10 to the Group financial statements.

#### Health, Safety, the Environment and the Community

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

In Dana operated activities, the Group makes appropriate resources and training available to reduce health and safety risks to employees and contractors to a level which is as low as reasonably practicable and to ensure a neutral or positive impact on the physical and socio-cultural environment of the regions in which Dana does business. Dana aims to meet relevant regulatory and legislative requirements as a minimum and apply Dana's own responsible standards in those countries where appropriate laws and regulations do not exist. Recognising that a significant proportion of Dana's activities are carried out by other companies, Dana also actively promotes and supports the application of equivalent health, safety and environmental standards by those suppliers, contractors and companies who operate on Dana's behalf.

It is the policy of the Group to consider the health and welfare of employees by maintaining a safe place and system of work as required by the Safety, Health and Welfare at Work Act 1989.

#### Auditors

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

#### Going Concern

The Board's review of the accounts, budgets and forward plans, lead the Directors to believe that the Group has sufficient resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

#### Directors

The membership of the Board is set out on page 14. On 14 June 2002 Mr C R Goodall joined the Board as a Non-Executive Director. Mr D A MacFarlane joined the Board as Finance Director on 1 November 2002 and Mr G D Stewart, his predecessor as Finance Director, became Commercial Director. Mr Stewart resigned on 23 December 2002 when he became Chief Executive of Faroe Petroleum Limited.

#### Interests in Contracts

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

### Directors' Interest in Share Capital

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

	Ordinary Shares at 09.06.03	Ordinary Shares at 31.12.02	Ordinary Shares at 31.12.01
C M Smith	2,220,179	2,220,179	2,220,179
T P Cross	8,031,778	8,031,778	6,540,778
D A MacFarlane	150,000	150,000	–
A M Bostock	601,369	601,369	273,009
A M Pelham Burn	2,150,000	2,100,000	1,985,452
C R Goodall	392,000	192,000	–

### Creditors Payment Policy

The Group's policy is to agree payment terms with individual suppliers and to abide by these terms. At 31 December 2002, the Company had an average of 58 days purchases in creditors principally as a result of West African exploration activity undertaken in the latter part of the year.

### Statement of Directors' Responsibilities in Respect of the Financial Statements

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

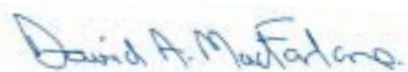
The Directors confirm that they have complied with the above requirements in preparing the accounts.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Board by:



**Thomas P Cross**  
Chief Executive



**David A MacFarlane**  
Finance Director

9 June 2003

## INFORMATION NOT SUBJECT TO AUDIT

### Remuneration Committee and Advisers

The Remuneration Committee comprises the Non-Executive Directors Mr A M Pelham Burn, Mr C M Smith and Mr C R Goodall, and meets not less than once annually. Mr A M Pelham Burn is Chairman of the Committee. The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's overall framework of remuneration and its cost.

The Remuneration Committee uses independent external advisers to analyse and make recommendations on the remuneration of Executive and Non-Executive Directors and has done so since 1997. For 2002, the Remuneration Committee commissioned the independent remuneration experts Deloitte & Touche to review the remuneration of the Directors of the Company and to assess the comparability to the marketplace in the oil and gas sector. The Committee accepted the findings of the independent report and brought the remuneration of the Directors for 2002 into line with its recommendations.

In addition, the Remuneration Committee continues to utilise New Bridge Street Consultants, a leading independent firm of share option scheme specialists, to advise the Committee on the formulation and development of the share option arrangements currently in place.

### Remuneration Policy

The Company's policy on Directors' remuneration for the current year and subsequent financial years is that the overall remuneration package should be sufficiently

competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and delivering growth in value. The objective of the remuneration policy is that individuals are remunerated on a basis that is appropriate to their position, experience and value to the Company. The Remuneration Committee determines the contract terms, basic salary, and other remuneration for each of the Executive Directors, including performance related share options, bonuses, pension rights and compensation payments.

**Executive remuneration package:** A key element of the existing executive remuneration package is the performance related criteria enshrined in the current share option schemes, which are directly linked to improvements in the Company's share price over the three year vesting period, thereby ensuring alignment with shareholders objectives.

The details of individual components of the remuneration package and service and employment contracts are discussed below.

**Basic salary and benefits:** The policy is to review salary and benefits annually against competitive market data and analysis, provided by independent consultants, and adjust accordingly. When salaries and benefits are established as competitive and commensurate with the position, increases will be in line with the average increases for employees throughout the Group. Benefits typically comprise cash allowances in lieu of company car and private health care arrangements, in addition to life assurance cover and permanent health insurance. Also included in 2002 is £25,000 in respect of relocation expenses for the newly appointed Finance Director.

**Share options:** The Company's policy on the granting of share options is to make such awards as are necessary to recruit, retain and motivate executives of sufficient calibre. There are currently two Company share option schemes in operation, the Dana Petroleum 1999 Share Option Scheme (which replaced the 1997 Share Option Scheme) and the Dana Petroleum Share Save Scheme. Since 31 December 1999 options have been awarded to Directors under the terms of the 1999 Share Option Scheme. In addition, a series of options remain outstanding under an individual agreement entered into prior to the introduction of the Company schemes. Full details of awards and the schemes performance criteria are set out below.

In total the Company has outstanding options granted to Executive Directors and employees to subscribe for 95,176,981 ordinary shares, which are exercisable up to 2013, at prices between 8.5p and 21.5p. The Remuneration Committee believes the Dana Petroleum 1999 Share Option Scheme closely aligns the interests of senior executives with those of shareholders. The Committee is, however, also aware of developing trends in the oil and gas sector and consequently intends, during 2003, to commission a review of alternative forms of competitive long term incentive plans for senior executives.

Under the Share Save Scheme, the Company has outstanding options granted to employees to subscribe for 1,135,387 shares, which are exercisable between 2003 and 2007, at prices between 10.5p and 13.25p.

**Annual bonuses:** The Remuneration Committee, in awarding annual bonuses, considers the Group's achievements during the year, its financial performance and an assessment of the individual executive's performance.

**Pensions:** The Company does not operate a pension scheme for Executive Directors but does, at the Directors' option, contribute to the personal pension plans of each Executive Director, or pays cash in lieu of such contributions up to a specified maximum of 20% of salary. Directors' pension contributions are paid in advance of the pension year which starts in April each year. No pension contributions are made in respect of Non-Executive Directors.

**Fees:** The fees for the Non-Executive Directors are determined by the Board having taken independent expert advice on appropriate levels and are reviewed on an annual basis.

**Service contracts:** The service and employment contracts of the Executive Directors are not of a fixed duration and therefore have no unexpired terms, but continuation in office as a Director is subject to re-election by shareholders as required under the Company's Articles of Association and in accordance with the provisions of the Combined Code. The Company's policy is for Executive Directors to ultimately have service and employment contracts with provision for termination of no longer than 12 months' notice. An historic exception to this, however, was the two year provision for termination awarded to Mr T P Cross which reflects his key role in the development of the Company. Mr A M Bostock and Mr D A MacFarlane are currently subject to a three month termination period.

The Non-Executive Directors do not have service contracts. Letters of Appointment provide for an initial period of 1 year and are renewable annually at the Company's discretion.

On a change of control of the Company resulting in the termination of his employment, Mr T P Cross is entitled to compensation of a sum equal to twice his annual remuneration. There are currently no predetermined special provisions for the other Executive or Non-Executive Directors with regard to change of control or for compensation for loss of office. The Remuneration Committee will consider the circumstances of individual cases of early termination and determine compensation payments accordingly.

#### Service Contracts

Details of the current Directors' contracts or appointment dates are as follows:

Executive Directors	Date of Service/Employment Contract
T P Cross	1 May 1997
A M Bostock	16 October 2000
D A MacFarlane	1 November 2002
Non-Executive Directors	Date of last Renewal of Appointment
C M Smith	1 January 2003
A M Pelham Burn	1 November 2002
C R Goodall	14 June 2002

Mr D A MacFarlane was co-opted to the Board of Directors on 1st November 2002 and in accordance with the Articles of Association retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election. Mr D A MacFarlane does not yet have a service contract.

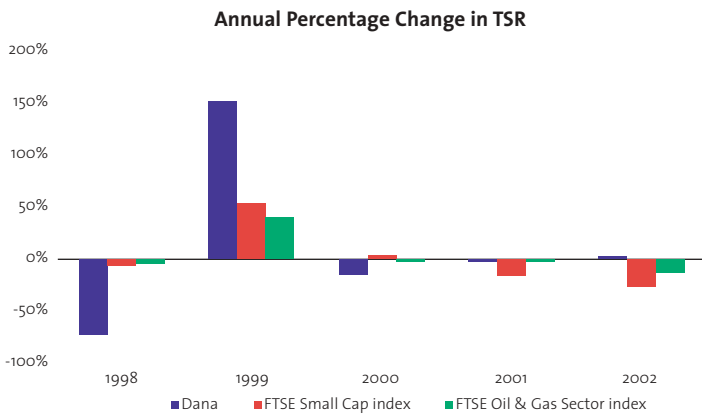
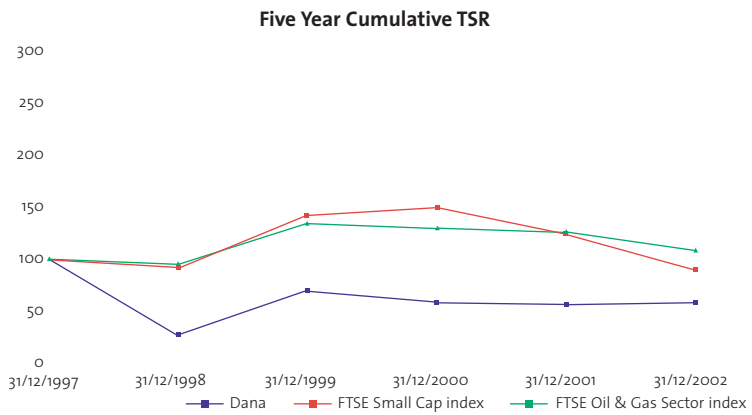
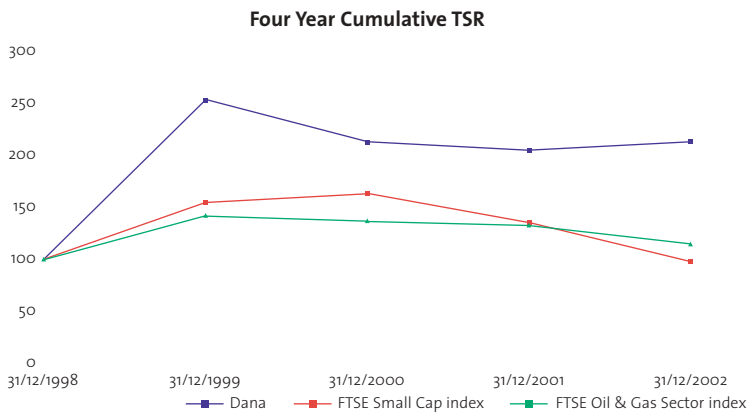
Mr T P Cross and Mr A M Pelham Burn retire by rotation and, being eligible, offer themselves for re-election.

Biographical details of all Directors can be found on page 14.



## Performance Graphs

The graphs below show the equivalent performance of the Company's Total Shareholder Return (TSR) over the last four and five financial years respectively, against the corresponding performance of the FTSE Small Cap index and the FTSE Oil & Gas Sector index. The Company is currently a constituent member of both of these indices and accordingly they provide a benchmark against which the Company's TSR can be monitored. The bar chart and the four year graph are being presented as additional information to that required by the Directors Remuneration Report Regulations 2002 to illustrate the impact of share price volatility during the 1997 to 1998 period.



Source: Thomson Financial Datastream

## INFORMATION SUBJECT TO AUDIT

### Directors' Remuneration

The remuneration of the Directors is as follows:

	Fees/basic salary £'000	Annual bonus 2002 £'000	Benefits in kind (1) £'000	Compensation for loss of office (3) £'000	2002 Total £'000	Re-stated 2001 Total (4) £'000
<b>Executive</b>						
T P Cross	349	192	38	–	579	521
D A MacFarlane (appointed 01.11.02)	23	12	27 (2)	–	62	–
G D Stewart (resigned 23.12.02)	152	–	17	40	209	257
A M Bostock (appointed 13.08.01)	130	71	14	–	215	74
<b>Non-Executive</b>						
C M Smith	33	–	–	–	33	30
A M Pelham Burn	20	–	–	–	20	18
C R Goodall (appointed 14.06.02)	11	–	–	–	11	–
P Taylor (resigned 13.08.01)	–	–	–	–	–	11
Aggregate remuneration	718	275	96	40	1,129	911

- (1) Benefits typically comprise cash allowances in lieu of company car and private health care arrangements, in addition to life assurance cover and permanent health insurance.
- (2) Includes £25,000 in respect of relocation expenses.
- (3) Compensation for loss of office following Mr G D Stewart's resignation to assume the role of Chief Executive of Faroe Petroleum Limited.
- (4) In June 2002, a final bonus award in respect of the 2001 financial year was paid to the Executive Directors in office at that time. These amounts were not provided for in the 2001 financial statements. The amounts were £48,000 for Mr T P Cross, £23,000 for Mr G D Stewart and £24,000 for Mr A M Bostock. The 2001 remuneration for the Executive Directors has been re-stated accordingly.

Contributions in lieu of Directors' pensions were as follows:

	2002 £'000	2001 £'000
T P Cross	70	64
D A MacFarlane (appointed 01.11.02)	4	–
G D Stewart (resigned 23.12.02)	31	31
A M Bostock (appointed 13.08.01)	26	9
Total	131	104

## Directors' Share Options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of Directors' interests in shares held under option are shown below. Unless otherwise indicated, the options were granted under the Dana Petroleum 1999 Share Option Scheme.

	Options Granted to 01.01.02 '000	Exercised '000	Options held at 31.12.02 '000	Exercise price (p)	Exercisable from	Expiry date
T P Cross	1,200	–	1,200 <sup>1</sup>	21.50	26.03.98	25.03.04
	1,200	–	1,200 <sup>1</sup>	21.50	26.03.99	25.03.04
	1,600	–	1,600 <sup>1</sup>	21.50	26.03.00	25.03.04
	4,968	–	4,968 <sup>2</sup>	21.50	26.04.01	25.04.08
	3,491	* 1,491	2,000 <sup>2</sup>	8.50	15.05.02	14.05.09
	8,286	–	8,286	15.75	31.12.02	30.12.09
	6,436	–	6,436	13.75	27.07.03	27.07.10
	12,514	–	12,514	10.50	28.12.04	27.12.11
	<b>39,695</b>	<b>1,491</b>	<b>38,204</b>			
D A MacFarlane (appointed 1.11.02)	–	–	–			
G D Stewart (resigned 23.12.02)	1,432	–	1,432 <sup>2</sup>	21.50	26.04.01	25.04.08
	1,545	–	1,545 <sup>2</sup>	8.50	15.05.02	14.05.09
	3,324	–	3,324	15.75	31.12.02	30.12.09
	2,945	–	2,945	13.75	27.07.03	27.07.10
	5,971	–	5,971	10.50	28.12.04	27.12.11
	<b>15,217</b>	<b>–</b>	<b>15,217</b>			
A M Bostock	1,900	–	1,900	13.75	27.07.03	27.07.10
	776	–	776	12.50	22.12.03	22.12.10
	81	–	81 <sup>3</sup>	12.00	01.01.04	30.06.04
	4,271	–	4,271	10.50	28.12.04	27.12.11
	<b>7,028</b>	<b>–</b>	<b>7,028</b>			
C M Smith	–	–	–	–	–	–
A M Pelham Burn	–	–	–	–	–	–
C R Goodall	–	–	–	–	–	–
	<b>61,940</b>	<b>1,491</b>	<b>60,449</b>			

- Options granted under an individual agreement dated 21 April 1997, in consideration for the release of options over shares in the Group's former Irish registered holding company.
- Options granted under the Dana Petroleum 1997 Share Option Scheme.
- Options granted under the Dana Petroleum Share Save Scheme.

\* At the date of exercise, the Company's share price was 11.0p giving a potential gain on the exercise of £37,275. Mr T P Cross, however, continues to hold these shares.

Mr G D Stewart resigned by mutual agreement with the Company to assume the position as Chief Executive of Faroe Petroleum Limited, an associate of the Company, and the Board decided to allow him to exercise his Dana options, within the rules of the Scheme, for a period of twelve months after the resignation date noted above. This period may be further extended at the sole discretion of the Remuneration Committee.

On 16 January 2003 options to acquire ordinary shares in the Company were granted under the Dana Petroleum 1999 Share Option Scheme, to the following Directors:

	Options '000	Exercise price (p)	Exercisable from	Expiry date
T P Cross	12,852	12.25	16.01.06	15.01.13
D A MacFarlane	3,843	12.25	16.01.06	15.01.13
A M Bostock	5,382	12.25	16.01.06	15.01.13
	<b>22,077</b>			

Share options are awarded by the Remuneration Committee. There are currently two Company share option schemes in operation for Executive Directors and employees; the Dana Petroleum 1999 Share Option Scheme (which replaced the 1997 Share Option Scheme) and the Dana Petroleum Share Save Scheme. Since 31 December 1999 options have been awarded to Directors under the terms of the 1999 Share Option Scheme. This scheme's performance criteria are set out on a sliding scale dependent upon the increase in the Company's share price, over and above the Retail Price Index ("RPI"), over a minimum three year period after the date of grant. 40% will be exercisable if the rate exceeds RPI plus 4% per annum and 100% will be exercisable if the rate exceeds RPI plus 10% per annum, with a pro-rata award between these levels. In any financial year a participant may not be awarded options over ordinary shares with an aggregate value of more than three times annual remuneration calculated by reference to the market value of the ordinary shares at the time of the grant.

The exercise of options granted under the previous 1997 Share Option Scheme, are subject to the achievement of appropriate conditions imposed by the Remuneration Committee at the time of the award. The criteria set by the

Remuneration Committee for the awards made under this scheme were that the Company's share price must increase over a three year period at a rate greater than the increase in RPI over the same three year period plus 4% per annum.

Under the Share Save Scheme, Mr A M Bostock was granted an option to subscribe for 80,729 shares at 12p per share on 7 December 2000, prior to his appointment as a Director of the Company. This Scheme is designed as a long term saving scheme for non-Director staff and has no performance criteria. Accordingly the Executive Directors have elected not to participate.

A series of options remain outstanding under an individual agreement dated 21 April 1997 with Mr T P Cross, in consideration for the release of options over shares in the Group's former Irish registered holding company. There are no performance criteria in this agreement. The outstanding options are exercisable at a price of 21.50p and expire on 25 March 2004.

The market price of the Company's shares on 31 December 2002 was 13.25p per share and the high and low share prices during the year were 17.75p and 10.25p respectively.

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

Signed on behalf of the Board by:

**Angus M Pelham Burn**  
Chairman of the Remuneration Committee

9 June 2003

### Independent Auditors' Report to the Members of Dana Petroleum plc

We have audited the Group's financial statements for the year ended 31 December 2002 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Reconciliation of Net Cash Flow to Movement in Net (Debt)/Funds and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Report on Directors' Remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in respect of the financial statements.

Our responsibility is to audit the financial statements and the part of the Report on Directors' Remuneration to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of Directors' is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' Remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises 2002 Highlights, Chairman's and Chief Executive's Review, Review of Operations, Financial Review, Report of the Directors, unaudited part of the Report of Directors' Remuneration, Proven and Probable Reserves and Exploration and Production Interests. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant

to the amounts and disclosures in the financial statements and the part of the Report on Directors' Remuneration to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report on Directors' Remuneration to be audited are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report on Directors' Remuneration to be audited.

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
Becket House  
1 Lambeth Palace Road  
London SE1 7EU

9 June 2003

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 in pounds sterling under the historical cost convention in accordance with applicable accounting standards.

In preparing the financial statements for the current year, the Group adopted FRS19 'Deferred Tax'. The adoption of FRS19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy below. Previously deferred tax was provided on all timing differences to the extent that it was probable that the liability would crystallise in the foreseeable future.

Adoption of FRS19 has not required any revisions to the financial statements in either the current or prior years.

The Group's financial statements fall within the scope of the Statement of Recommended Practice (SORP) issued by the Oil Industry Accounting Committee, "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities", and have been prepared in accordance with the provisions thereof.

As a result of compliance with the SORP, the 2001 Turnover and Cost of Sales comparative figures have been adjusted to incorporate under/overlift within Cost of Sales rather than Turnover as previously reported. The financial impact of this change in both the current and previous year is as follows:

	2002 £'000	2001 £'000
Turnover	2,305	(502)
Cost of Sales – continuing operations	(2,305)	502

#### Basis of Group 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 are dealt with on the basis of acquisition accounting whereby the identifiable net assets acquired are recorded at their fair value with any material differences between the cost of the acquisition and the fair value of the identifiable assets being treated as goodwill.

The results of subsidiaries acquired or disposed of are included/excluded in the consolidated profit and loss account from the date on which control passes. The profit or loss on disposal of subsidiary companies is determined, inter alia, by the inclusion in the profit and loss account of goodwill previously written off against reserves.

In the Company's own balance sheet, investments in subsidiaries are stated at cost less provisions for any permanent diminution in value.

#### Turnover

Turnover includes the sales value, net of VAT and overriding royalties, of the Group's share of production in the year on an entitlement basis.

#### Oil and Gas Assets

The Group accounts for oil and gas expenditure under the full cost method of accounting.

For evaluated properties, all lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, appraisal and development are capitalised as fixed assets in appropriate cost pools, which at present are Europe and the Russian Federation. Costs relating to unevaluated properties are held outside the relevant cost pool, and are not amortised until such time as the related property has been fully appraised.

Costs relating to evaluated properties within each pool are depleted on a unit of production method based on the commercial proven and probable reserves for that pool. The amortisation calculation takes account of the estimated future costs of development of recognised proved and probable reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively.

Proceeds from the disposal of oil and gas assets accounted for in the pool are deducted from capitalised costs with no gain or loss being recognised.

A review is performed each year for any indication that the value of the Group's oil and gas properties may be subject to impairment. Where there are such indications, an impairment test is carried out and if necessary additional depletion is charged if the capitalised costs of evaluated properties exceed the estimated value of the related commercial reserves of oil and gas within the pools. The value is based on the higher of anticipated future costs and revenues (discounted) attributable to such reserves.



## Decommissioning

Provision for decommissioning is recognised in full at the commencement of oil and gas production. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

## Other Tangible Assets and Depreciation

Other tangible assets are stated in the balance sheet at cost less accumulated depreciation.

Depreciation is provided on all other tangible 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:

- |                      |           |
|----------------------|-----------|
| • Motor vehicles     | 20% – 25% |
| • Equipment          | 10% – 25% |
| • Computer equipment | 33%       |

## Stocks

Stocks comprise oil in tanks and pipelines and materials, which are stated at the lower of cost and net realisable value.

## 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.

## Petroleum Revenue Tax and Russian Profit Tax

The Group provides for these taxes on a current basis, i.e. as and when a liability occurs.

## Foreign Currencies

### Company

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

### Group

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 reserves. All other exchange differences are taken to the profit and loss account.

The Group carries out certain of its operations via entities located in economies which are subject to hyperinflation. In accordance with UITF abstract 9, issued by the Urgent Issues Task Force of the Accounting Standards Board, the Group uses US Dollars as the functional currency for these entities. Transactions denominated in local currencies are re-measured into the functional currency at the rate ruling on the date that they arose.

#### Derivative Instruments

The Group to date has not used forward foreign currency contracts to reduce exposure to foreign exchange rates, but has transacted an interest rate swap for 2003 to adjust interest rate exposures. When such instruments are used, then the following definitions and accounting treatments will apply.

#### Forward foreign currency contracts

The criteria for forward foreign currency contracts are:

- the instrument must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the Group's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed or probable future transaction, are deferred until the transaction occurs.

#### Interest rate swaps

The Group's criteria for interest rate swaps are:

- the instrument must be related to an asset or a liability; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing the net interest payable. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If they are terminated early, without settling the underlying liability, the gain/loss is spread over the remaining maturity of the original instrument.

#### Pensions

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.



# Group Profit and Loss Account

For the year ended 31 December 2002

	Note	2002 £'000	Re-stated 2001 £'000
Turnover	2	38,588	26,639
Cost of Sales – continuing operations	3	(26,606)	(16,839)
<b>Gross Profit</b>		<b>11,982</b>	<b>9,800</b>
Administrative Expenses		(2,663)	(1,596)
<b>Operating Profit</b>	<b>4</b>	<b>9,319</b>	<b>8,204</b>
Group Share of Loss of Associated Company		(54)	(58)
<b>Profit on Ordinary Activities before Interest</b>		<b>9,265</b>	<b>8,146</b>
Interest Receivable		677	866
Interest Payable and Similar Charges	5	(1,711)	(1,345)
<b>Profit on Ordinary Activities before Taxation</b>		<b>8,231</b>	<b>7,667</b>
Taxation	7	(1,266)	(1,234)
<b>Profit on Ordinary Activities after Taxation</b>		<b>6,965</b>	<b>6,433</b>
Minority Interest	21	(155)	(850)
<b>Profit for the Financial Year</b>	<b>20</b>	<b>6,810</b>	<b>5,583</b>
Earnings per Share	8	0.62p	0.59p
Earnings per Share – diluted	8	0.59p	0.58p

The results are derived solely from continuing operations.

The financial statements were approved by the Board of Directors on 9 June 2003 and signed on its behalf by:

**Thomas P Cross**  
Director

**David A MacFarlane**  
Director

## Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 2002

	2002 £'000	2001 £'000
<b>Profit for the Year</b>	<b>6,810</b>	<b>5,583</b>
Currency translation adjustments	(99)	57
<b>Total Recognised Gains for the Year</b>	<b>6,711</b>	<b>5,640</b>

# Group Balance Sheet

As at 31 December 2002

	Note	2002 £'000	2001 £'000
<b>Fixed Assets</b>			
Intangible Assets	9	86,586	70,483
Tangible Assets	9	104,018	40,147
Investments	10	16,939	14,557
		207,543	125,187
<b>Current Assets</b>			
Stocks		183	140
Debtors	11	13,860	5,766
Cash at bank and in hand		8,704	30,192
		22,747	36,098
Creditors: amounts falling due within one year	12	(30,242)	(10,604)
<b>Net Current (Liabilities)/Assets</b>		<b>(7,495)</b>	<b>25,494</b>
		200,048	150,681
<b>Total Assets Less Current Liabilities</b>			
Creditors: amounts falling due after one year	13	(44,230)	(9,129)
Provision for Liabilities and Charges	15	(12,245)	(4,242)
Accruals and Deferred Income	16	(4,740)	(5,320)
		(61,215)	(18,691)
Minority Interest in Subsidiary Undertakings	21	(1,552)	(1,547)
<b>Total Net Assets</b>		<b>137,281</b>	<b>130,443</b>
<b>Capital and Reserves</b>			
Called-up Share Capital	19	11,081	11,066
Share Premium Account	20	30,610	30,498
Other Reserves	20	97,679	97,679
Profit and Loss Account	20	(2,089)	(8,800)
<b>Shareholders' Funds</b>		<b>137,281</b>	<b>130,443</b>

The financial statements were approved by the Board of Directors on 9 June 2003 and signed on its behalf by:

**Thomas P Cross**  
Director

**David A MacFarlane**  
Director



# Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2002

	2002 £'000	2001 £'000
Total Recognised Gains for the Year	6,711	5,640
New Shares Issued	127	24,026
Net Addition to Shareholders' Funds	6,838	29,666
Opening Shareholders' Funds	130,443	100,777
Closing Shareholders' Funds	137,281	130,443

## Company Balance Sheet

As at 31 December 2002

	Note	2002 £'000	2001 £'000
<b>Fixed Assets</b>			
Tangible Assets	9	87	206
Investments	10	100,093	22,588
		100,180	22,794
<b>Current Assets</b>			
Debtors	11	39,383	35,603
Cash at bank and in hand		1,816	14,926
		41,199	50,529
Creditors: amounts falling due within one year	12	(108,452)	(28,844)
Net Current (Liabilities)/Assets		(67,253)	21,685
<b>Total Assets Less Current Liabilities</b>		32,927	44,479
Creditors: amounts falling due after one year	13	(9,792)	(9,059)
<b>Total Net Assets</b>		23,135	35,420
<b>Capital and Reserves</b>			
Called-up Share Capital	19	11,081	11,066
Share Premium Account	20	30,610	30,498
Profit and Loss Account	20	(18,556)	(6,144)
Shareholders' Funds		23,135	35,420

The financial statements were approved by the Board of Directors on 9 June 2003 and signed on its behalf by:

**Thomas P Cross**

Director

**David A MacFarlane**

Director

# Group Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Net Cash Inflow from Operating Activities	22	16,383	4,288
Returns on Investment and Servicing of Finance			
Interest Received		677	866
Interest Paid		(561)	(401)
		116	465
Taxation Paid		(1,492)	(1,656)
Capital Expenditure and Financial Investment			
Expenditure on Intangible and Tangible Assets		(79,387)	(18,200)
Expenditure on Investments		(882)	–
Received from Disposal of Intangible and Tangible Assets		661	–
		(79,608)	(18,200)
Net Cash Outflow before Management of Liquid Resources and Financing		(64,601)	(15,103)
Management of Liquid Resources			
Short Term Deposits		7,849	(12,253)
Financing			
Issue of Ordinary Share Capital		127	24,026
New Short Term Borrowings		10,776	–
Repayment of Short Term Borrowings		(2,900)	–
New Long Term Borrowings		35,570	–
Repayment of Long Term Borrowings		(70)	–
		43,503	24,026
Decrease in Cash in the Year		(13,249)	(3,330)

## Reconciliation of Net Cash Flow to Movement in Net (Debt)/Funds

	Note	2002 £'000	2001 £'000
Decrease in Cash in the Year		(13,249)	(3,330)
Cash (Inflow) from Draw Down of Debt Financing		(46,346)	–
Cash Out Flow from Repayment of Debt Financing		2,970	–
Cash Movement from Change in Liquid Resources		(7,849)	12,253
Change in Net (Debt)/Funds Resulting From Cash Flows		(64,474)	8,923
Exchange Differences		742	153
Convertible Loan Notes in lieu of Interest		(733)	(672)
Movement in Net (Debt)/Funds		(64,465)	8,404
Net Funds at beginning of the Year		18,163	9,759
Net (Debt)/Funds at end of the Year	23	(46,302)	18,163

## 1. Segmental Reporting

For the purposes of segmental information the operations of the Group comprise one class of business, the exploration for and production of hydrocarbon liquids and gas.

The major areas of operation of the Group are Europe, Africa, Russia, Indonesia and Western Australia. For the purposes of segmental analysis the Directors consider that distinction should be made between Europe, Africa, Russia and the Rest of the World.

Operating profit and Group net assets are analysed as follows:

	Operating profit		Net assets	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Europe	7,629	5,156	54,221	49,588
Africa	–	–	32,769	29,247
Russia	1,690	3,048	34,472	33,262
Rest of the World	–	–	15,819	18,346
	9,319	8,204	137,281	130,443

The Europe analysis of net assets includes the net assets of Associated undertakings of £2,859,000 (2001 – £Nil), and the Russia analysis of net assets includes the net assets of Associated undertakings of £3,270,000 (2001 – £3,548,000).

## 2. Turnover

(a) Turnover in 2002 arises solely from oil, gas and condensate sales.

(b) Analysis by Region

	2002	Re-stated 2001
	£'000	£'000
Europe	32,714	16,390
Russia	5,874	10,249
	38,588	26,639

(c) Analysis by Category

	2002	Re-stated 2001
	£'000	£'000
Oil	33,674	21,747
Gas/NGLs	4,914	4,892
	38,588	26,639

### 3. Cost of Sales

	2002	Re-stated 2001
	£'000	£'000
Operating costs	18,546	14,370
Depletion, Depreciation and Abandonment	5,755	2,971
Net Over/(Under) lifted production	2,305	(502)
	26,606	16,839

### 4. Operating Profit

	2002	2001
	£'000	£'000
Operating Profit is stated after charging/(crediting)		
Auditors' remuneration – annual audit	106	83
– other services	89	105
Depreciation	74	87
Foreign Exchange	617	(775)
Operating lease rentals – land and buildings	66	49
– plant and machinery	–	2,140
Deferred income (note 16)	(580)	(905)

### 5. Interest Payable and Similar Charges

	2002	2001
	£'000	£'000
Bank and other loans	1,295	843
Unwinding of decommissioning discount	416	502
	1,711	1,345

### 6. Employment Costs

	2002	2001
	£'000	£'000
Wages, salaries and fees	1,889	1,586
Pension costs	170	168
Social security costs	238	288
	2,297	2,042

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

	2002	2001
Management	15	14
Technical and administration	47	44
	62	58

Of the total number of employees, 43 are employed by the Group's subsidiary Yoganoil, which operates the South Vat-Yoganskoye field.

7. Taxation

	2002 £'000	2001 £'000
a) Analysis of Tax on profit on ordinary activities		
Petroleum Revenue Tax	15	339
UK Corporation Tax on acquired assets	1,062	–
Russian Profit Tax	500	895
Adjustments in respect of prior years Russian Profit Tax	(311)	–
	<u>1,266</u>	<u>1,234</u>

b) Factors affecting the Tax charge for the year

The tax charged for the year is lower than the weighted average rate for the year. The difference is explained below:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	8,231	7,667
Tax at the weighted average rate of corporation tax of 30.57% (2001 – 33.49%)	2,517	2,568
Expenses not deductible for tax purposes – Disallowed Expenses and Non-taxable Income	(178)	(595)
Capital Allowances in excess of Depreciation	(13,779)	(2,929)
Other Timing Differences	2,314	(570)
Tax Losses	11,251	2,421
Pre-trading Expenditure claimed	(1,317)	–
Accounting Loss on Chargeable Assets	443	–
Petroleum Revenue Tax	15	339
Current tax charge for the year	<u>1,266</u>	<u>1,234</u>

c) Factors that may affect future tax charges

A deferred UK Corporation Tax asset of £5,359,000 (2001 – £6,107,000), in relation to trade losses not utilised, has not been recognised as there is uncertainty whether the asset is recoverable. The asset would be recoverable if there are future suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Based on the capital investment plan for 2003 however, the Group expects to start incurring a liability to UK Corporation tax in the latter part of the year, subject to the oil price realised during the period.

The Group currently has three fields that are subject to Petroleum Revenue Tax (PRT) but, due to the existence of oil allowance and exploration and appraisal (E&A) relief, it has historically only suffered a charge on one of the fields. The full utilisation of E&A relief in 2003 means that PRT will be payable on two fields in 2003.

Details of factors affecting the Group's liability to taxation in Russia are given in note 25. In addition, Russian taxes are calculated in roubles and as a result the Group is exposed to currency fluctuations.

d) Deferred Taxation

Deferred tax provided in the accounts is as follows:

	2002 £'000	2001 £'000
Capital Allowances in excess of Depreciation	18,696	3,312
Other Timing Differences	(4,016)	(1,305)
Tax Losses	(14,680)	(2,007)
	<u>–</u>	<u>–</u>

## 8. Earnings per Share

The earnings per ordinary share of 0.62p (2001 – 0.59p) is calculated on the profit of £6,810,000 (2001 – £5,583,000) and on a weighted average of 1,106,645,435 ordinary shares (2001 – 952,558,692).

The diluted earnings per share of 0.59p (2001 – 0.58p) is calculated on the profit of £6,810,000 (2001 – £5,583,000) and on 1,151,253,414 ordinary shares (2001 restated – 957,770,770), being those shares in issue and issuable in respect of Directors' and employees' share options and any other future commitments.

Convertible loan stocks are at present anti-dilutive.

## 9. Intangible and Tangible Assets

The movements during the year were as follows:

Group	Intangible Assets		Tangible Assets		Total £'000
	Exploration and Appraisal Expenditure £'000	Oil and Gas Properties £'000	Other £'000		
<b>Cost</b>					
At 1 January 2002	70,483	78,229	739		149,451
Exchange adjustments	–	(2,075)	–		(2,075)
Additions	51,628	40,754	49		92,431
Transfers and reclassifications	(32,003)	31,653	–		(350)
Disposals	(3,522)	(1,226)	–		(4,748)
<b>At 31 December 2002</b>	<b>86,586</b>	<b>147,335</b>	<b>788</b>		<b>234,709</b>
<b>Depletion and Depreciation</b>					
At 1 January 2002	–	38,192	629		38,821
Exchange adjustments	–	(545)	–		(545)
Provided in year	–	5,755	74		5,829
<b>At 31 December 2002</b>	<b>–</b>	<b>43,402</b>	<b>703</b>		<b>44,105</b>
<b>Net Book Value</b>					
<b>At 31 December 2002</b>	<b>86,586</b>	<b>103,933</b>	<b>85</b>		<b>190,604</b>
At 1 January 2002	70,483	40,037	110		110,630

### Company

Fixed assets above include Company assets at a cost of £493,000 (2001 – £539,000) and net book value of £87,000 (2001 – £206,000).

## 10. Fixed Assets Investments

	Subsidiary Undertakings £'000	Associated Undertakings £'000	Other Investments £'000	Total £'000
<b>Group</b>				
At 1 January 2002	–	3,548	11,009	14,557
Exchange adjustments	–	(224)	(199)	(423)
Additions	–	2,509	–	2,509
Transfers from Intangible Assets	–	350	–	350
	–	6,183	10,810	16,993
Share of losses	–	(54)	–	(54)
<b>At 31 December 2002</b>	<b>–</b>	<b>6,129</b>	<b>10,810</b>	<b>16,939</b>
<b>Company</b>				
At 1 January 2002	22,588	–	–	22,588
Additions	6,252	2,509	–	8,761
Transfers from Intangible Assets	–	350	–	350
Intra-Group Transfers	76,060	366	–	76,426
Impairment	(8,032)	–	–	(8,032)
<b>At 31 December 2002</b>	<b>96,868</b>	<b>3,225</b>	<b>–</b>	<b>100,093</b>

The intra-group transfers of subsidiary undertakings is principally the result of a reorganisation, required by the security arrangements for the new bank facility agreed during the year, together with the completion of certain transfers to reflect the current ownership of each subsidiary undertaking.

The incremental investment in associated undertakings during the year relates to the Group's 20.6% interest in Faroe Petroleum Limited, a UK company formed to pursue exploration and production opportunities in the Faroes and Atlantic Margin. The Group also continues to hold a 30% interest in Yuganskoi Joint Stock Company, a company incorporated in the Russian Federation to operate the Sortynskoye oil field, where development has not progressed due to non alignment of the participants in the project. However, with recent geo-political events and improvements in the investment climate in Russia, the Dana Board remains comfortable with the underlying investment in that opportunities may emerge to energise the project.

Other investments represents a 10% shareholding in Evikhon, a Russian joint stock company, which has a 50% interest in the development of the Salym area in West Siberia. The investment consists of £8,659,000 as share capital and £2,151,000 as a capital contribution in the form of a loan to the company.

At 31 December 2002, the principal subsidiary undertakings of the Company and the Group were:

	Country of Incorporation	Main Activity
Dana Petroleum (E&P) Limited	UK	Oil & Gas exploration & production
Dana Petroleum (North Sea) Limited*	UK	Oil & Gas exploration & production
Yoganoil Joint Stock Company*	Russian Federation	Oil production
Dana Petroleum (Indonesia) LLC*	Cayman Islands	Oil & Gas exploration & development
Dana Petroleum (Ghana) Limited	Guernsey	Oil & Gas exploration

\* Held by subsidiary undertaking

With the exception of Yoganoil in which an 80% interest is held, all of the above companies are wholly owned. Further details of subsidiary undertakings are available at the headquarters of Dana Petroleum plc.

## 11. Debtors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Trade debtors	11,810	4,880	119	65
Other debtors	2,050	886	73	117
Due from subsidiary undertakings	-	-	39,191	35,421
	13,860	5,766	39,383	35,603

## 12. Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank loan (note 14)	10,776	2,900	-	-
Russian State credit	932	1,031	-	-
Trade creditors	16,208	5,437	244	292
Amounts owed to subsidiary undertakings	-	-	106,108	28,030
Payroll taxes	122	26	-	-
Petroleum Revenue Tax	(62)	121	-	-
Other taxes payable	255	362	-	-
Accruals	2,011	727	2,100	522
	30,242	10,604	108,452	28,844

## 13. Creditors: amounts falling due after one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank loan (note 14)	34,438	70	-	-
Convertible loan note (notes 14 & 17)	9,792	9,059	9,792	9,059
	44,230	9,129	9,792	9,059

#### 14. Loan Summary

The maturity of the loans disclosed in notes 12 and 13 are as follows:

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
<b>(a) Amounts Falling Due</b>				
- in one year or less or on demand	10,776	2,900	-	-
- in more than one year but not more than two years	12,192	-	-	-
- in more than two years but not more than five years	32,038	9,129	9,792	9,059
	<b>55,006</b>	<b>12,029</b>	<b>9,792</b>	<b>9,059</b>

#### (b) Bank Loan

At 31 December 2002 the Group had a committed borrowing facility under a US\$75,000,000 revolving credit arrangement. The maximum amount under the facility that may be drawn down is determined by reference to the net present values of the assets comprising the underlying borrowing base as well as certain other financial tests. The maximum drawdown available under the facility is reviewed and adjusted at six monthly intervals. The December 2002 review resulted in an agreed borrowing base capacity of US\$83,200,000 and discussions are in progress to agree an increased facility and revised terms in 2003, and the maturity profile of the loan takes this into account.

At 31 December 2002 US\$72,794,000 was drawn under the facility, and under the terms of that facility will be repayable in full by 31 December 2007. If the facility is not extended as expected, £19,700,000 will fall due for repayment during 2003.

The bank loan is secured by fixed and floating charges over the assets of certain Group companies.

#### 15. Provisions for Liabilities and Charges

	Decommissioning provision £'000	Future payment £'000	2002 Total £'000
<b>Operating assets</b>			
At 1 January 2002	4,242	-	4,242
New provisions	6,034	1,553	7,587
Unwinding of decommissioning discount	416	-	416
<b>At 31 December 2002</b>	<b>10,692</b>	<b>1,553</b>	<b>12,245</b>

The decommissioning provision of £10,692,000 relates to producing wells in the North Sea and Russian operations. These costs are expected to be incurred at various intervals over the next 18 years. The provision has been estimated using existing technology at current prices, escalated at 2.5%, and discounted at 7%.

The future payment relates to the deferred payment of US\$2,500,000 made in March 2003 on first oil production from the Caledonia field, as part of the original exchange agreement.

#### 16. Accruals and Deferred Income

In 1999, Dana Petroleum (E&P) Limited re-negotiated its gas sales contract with British Gas Trading Limited in respect of the Victor gas field which resulted in the receipt of a lump sum compensation payment to Dana. This income is released to the profit and loss account in proportion to the amount produced annually over the field's remaining reserves, and is included in Turnover.

## 17. Convertible Loan Notes

A total of US\$12,500,000 loan notes were issued on 23 December 1999 and carry a fixed coupon of 7.95% per annum, payable on 30 June and 31 December, settled by the issue of further loan notes, with the Company having the option to pay coupons in cash after the fourth anniversary of issue. During the year an additional amount of £733,000 (2001 – £672,000) has been accrued in respect of interest due and the cumulative value of the convertible at 31 December 2002 is US \$15,838,437.

At 31 December 2002 the convertible loan notes of US\$15,838,437 would convert to 54,433,540 ordinary shares in the Company. The Company may repay after the fifth anniversary of issue at a fixed exchange rate of US\$1.6176:£1. The loan notes will be redeemed on 30 April 2007 if not converted or redeemed prior to that date.

The convertible is not secured but to provide the loan note holders with voting rights, 12 B ordinary shares have been issued to the loan note holders. The holders of B ordinary shares shall be entitled to attend meetings of the Company and vote as if their loan notes had converted into ordinary shares.

## 18. Financial Instruments

Crude oil price variation remains the main economic factor to which Dana's results are sensitive. Dana constantly reviews the need for oil price and currency hedging under a rolling process whereby appropriate action is taken to protect operating cashflow against both material oil price falls and exchange losses. Disclosures in this note, other than currency disclosures, exclude short term debtors and creditors.

### Financial Assets

The Group financial assets comprise cash at bank and an unquoted investment. The floating rate financial assets comprise cash deposits on money market deposit at call, weekly and monthly rates.

	Fixed rate financial assets £'000	Floating rate financial assets £'000	Financial assets for which no interest is received £'000	Total £'000
<b>2002</b>				
Sterling	–	1,335	4,709	6,044
US Dollar	–	6,565	6,135	12,700
Euro	–	3	–	3
Rouble	–	598	169	767
	–	8,501	11,013	19,514
<b>2001</b>				
Sterling	–	23,293	4,937	28,230
US Dollar	–	5,306	6,302	11,608
Euro	–	16	–	16
Rouble	–	687	660	1,347
	–	29,302	11,899	41,201

## 18. Financial Instruments (continued)

### Financial Liabilities

The interest rate profile of the Group's financial liabilities at 31 December was:

	Fixed rate financial liabilities		£'000	Floating rate financial liabilities £'000	Total £'000
	Weighted average interest rate %	Weighted average period for which rate is fixed years			
<b>2002</b>					
US Dollar	2.89	1.0	15,373	29,841	45,214
US Dollar	7.95	4.3	9,792	–	9,792
<b>2001</b>					
US Dollar	7.95	5.3	9,059	–	9,059
Sterling	–	–	–	2,970	2,970

The floating rate liabilities comprise the bank borrowings which bear interest based on US\$ LIBOR plus 1.35% (2001: UK LIBOR plus 0.95%).

### Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities at 31 December is shown in Note 14.

### Borrowing Facilities

The current status of the Group's borrowing facility is covered in Note 14 (b).

### Currency Exposures

The Group's objectives in managing the currency exposures are to match, to the extent practical, receipts and payments in the same currency.

The table below shows the Group's currency exposures; in other words exposure that gives rise to the net currency gains and losses recognised in the profit and loss account. Such exposure comprises the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved. The principal functional currencies of the Group's operating companies are Sterling and US Dollars.

As at 31 December the exposures were:

Functional currency of Group operations	Net foreign currency monetary assets/(liabilities)			
	Sterling £'000	US Dollar £'000	Other £'000	Total £'000
<b>2002</b>				
Sterling	–	(38,472)	(54)	(38,526)
US Dollar	–	–	1,989	1,989
	–	(38,472)	1,935	(36,537)

Functional currency of Group operations	Net foreign currency monetary assets/(liabilities)			
	Sterling £'000	US Dollar £'000	Other £'000	Total £'000
<b>2001</b>				
Sterling	–	3,512	16	3,528
US Dollar	–	–	1,420	1,420
	–	3,512	1,436	4,948

### Fair Values of Financial Assets and Financial Liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities as at 31 December.

	2002 Book value £'000	2002 Fair value £'000	2001 Book value £'000	2001 Fair value £'000
Cash and short term deposits	8,704	8,704	30,192	30,192
Unquoted Investment	10,810	10,810	11,009	11,009
Interest rate swap	–	–	–	–
Short term borrowings	10,776	10,776	2,900	2,900
Long term borrowings	44,230	44,230	9,129	9,129

### 19. Called-up Share Capital

	Number of 1p Ordinary '000
Authorised ordinary shares At 1 January and 31 December 2002	1,375,000
	1p Ordinary £'000
Allotted, called up and fully paid ordinary shares At 1 January 2002	11,066
Issued and fully paid for share option exercise At 31 December 2002	15 11,081

During the year 1,491,000 ordinary shares were issued at a price of 8.5p to Mr T P Cross pursuant to the exercise of share options.

At 31 December 2002 the issued share capital of the Company was represented by 1,108,087,416 (2001 – 1,106,596,416) ordinary shares of 1p each and 12 B ordinary shares of 1p each (per note 17).

### Employee Share Schemes

At 31 December 2002, there were outstanding options under various Director and employee share option schemes, exercisable during the years 2003 to 2013, to acquire 74,235,068 shares of the Company at prices ranging from 8.5p to 21.5p. Further details are contained in the Report on Directors' Remuneration.

## 20. Reserves

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
<b>Group</b>			
At 1 January 2002	30,498	97,679	(8,800)
Retained profit for the year	–	–	6,810
Exchange differences	–	–	(99)
Arising on share issue	112	–	–
<b>At 31 December 2002</b>	<b>30,610</b>	<b>97,679</b>	<b>(2,089)</b>
<b>Company</b>			
At 1 January 2002	30,498	–	(6,144)
Retained loss for the year	–	–	(12,412)
Exchange differences	–	–	–
Arising on share issues	112	–	–
<b>At 31 December 2002</b>	<b>30,610</b>	<b>–</b>	<b>(18,556)</b>

## 21. Minority Interest in Subsidiary Undertakings

	2002 £'000	2001 £'000
At 1 January 2002	1,547	686
Currency translation adjustments	(150)	11
Share of results for the year	155	850
<b>At 31 December 2002</b>	<b>1,552</b>	<b>1,547</b>

## 22. Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2002 £'000	Re-stated 2001 £'000
Operating Profit	9,319	8,204
Depreciation Charges	5,829	3,351
Deferred Income	(580)	(905)
Stock Movement	(43)	335
Debtors Movement	(7,389)	(2,930)
Creditors Movement	9,247	(453)
Provisions Movement	–	(3,314)
<b>Net Cash Inflow from Operating Activities</b>	<b>16,383</b>	<b>4,288</b>

## 23. Analysis of Net (Debt)/Funds

	At 1 January 2002 £'000	Cash flows £'000	Other £'000	Exchange differences £'000	At 31 December 2002 £'000
Cash at bank and in hand	17,130	(13,249)	–	(129)	3,752
Short term deposits	13,062	(7,849)	–	(261)	4,952
	30,192	(21,098)	–	(390)	8,704
Debt due within one year	(2,900)	(7,876)	–	–	(10,776)
Debt due after one year	(70)	(35,500)	–	1,132	(34,438)
Convertible loan notes	(9,059)	–	(733)	–	(9,792)
	18,163	(64,474)	(733)	742	(46,302)

## 24. Capital Commitments

### (a) Exploration and Approved Development commitments

The Group has commitments for future capital expenditure of £9.5m (2001 – £15.5m) which represent the Group's share of obligations under existing Production Sharing Contracts and Joint Operating Agreements.

### (b) Operating Leases

Annual commitments under operating leases are as follows:

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Payable on leases which expire within one year	66	–	66

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

## 25. Contingent Liabilities

### Operating in Russia

**Business Environment:** Historically Russian companies' operations and their financial position have been affected by Russian political developments and notwithstanding the currently improving investment climate in Russia, it is possible that future political developments may continue to have a significant impact on their ability to continue operations.

**Taxation:** Legislation regarding foreign currency transactions and taxation in the Russian Federation is constantly evolving and many new tax and foreign currency laws and related regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, Central Bank officials and the Ministry of Finance. Management believes that it has paid or accrued all taxes that are applicable for current and prior years.

**Environmental Considerations:** Russian laws and regulations concerning environmental assessments and clean-ups continue to evolve. As they do, Russian companies may incur substantial costs in the future relating to past and current operations.



## 26. Related Party Transactions

### (a) Oil Sales

Sales of US\$6,757,000 (2001 – US\$8,205,000) were made by the Group through Lukoil, the other significant shareholder in YoganOil. All sales were on an arms-length basis at prevailing domestic market prices. At 31 December 2002 \$435,000 was owed to YoganOil (2001 – \$999,000) in respect of such sales.

### (b) Convertible Loan Notes (Note 17 refers)

During the year additional convertible loan notes totalling US\$1,188,000 (£733,000) accrued on the convertible loan notes issued by the Company on 23 December 1999 to MHR Institutional Partners LP and MHRM Partners LP being affiliates of MHR Advisors LLC, the Company's largest shareholder.

### (c) Faroes Oil and Gas Company

In return for the provision of services under the January 1998 Co-operation Agreement with the Faroes Oil and Gas Company (Føroya Kolvetni), the Company had an option to acquire up to 20% of Føroya Kolvetni. Dana's former Finance Director, Graham Stewart, was also the Non-Executive Chairman of Føroya Kolvetni. This option was exercised by the Company in December 2002, as part of its subscription for shares in Faroe Petroleum Limited, the new UK holding company for Føroya Kolvetni. Graham Stewart also left the Company by mutual agreement as part of this transaction to assume the role of Chief Executive of Faroe Petroleum Limited.

## 27. 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 £170,000 (2001 – £168,000) for the year ended 31 December 2002.

## 28. Holding Company Profit and Loss Account

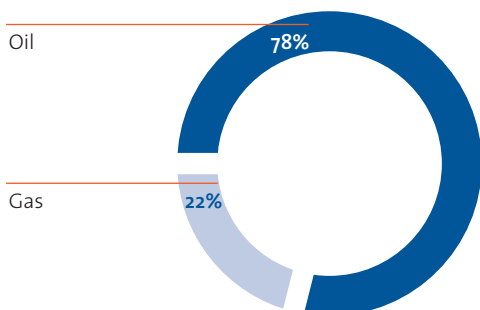
In accordance with the provisions of the Companies (Amendment) Act 1986, the Company has not presented a profit and loss account. A loss for the year of £12,412,000 (2001 loss of – £1,694,000) has been dealt with in the profit and loss account of the Company.

(Million barrels of oil equivalent)

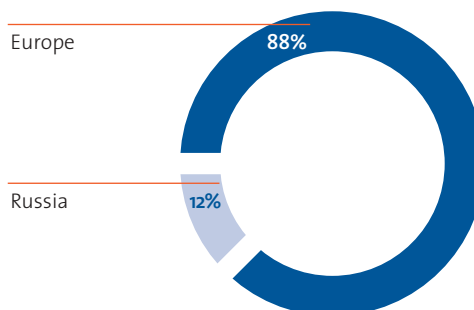
	Europe	Russia	Africa	Indonesia	Total
1 January 2002	28.3	46.2	20.7	10.0	105.2
Discoveries and Extensions	6.8	–	8.3	–	15.1
Acquisitions and Disposals	21.5	–	–	–	21.5
Revisions	–	(6.1)	(16.7)	–	(22.8)
Production	(2.0)	(1.0)	–	–	(3.0)
31 December 2002	54.6	39.1	12.3	10.0	116.0

The above table has been compiled in accordance with the definition of proven and probable reserves required under Chapter 19 of the UKLA Listing Rules governing Mineral Companies.

### Oil & Gas Reserves Balance at 1 January 2003



### Estimated 2003 Production Balance





# Exploration and Production Interests

as at 1 May 2003

COUNTRY	LICENCE/BLOCK	FIELD/ASSET	OPERATOR	NET INTEREST
<b>UK Commercial Fields and Infrastructure Interests</b>				
UK	Licence P.224/Block 29/2a	Banff	ConocoPhillips	12.40%
UK	Brent Pipeline System	Brent Pipeline	Shell	0.64%
UK	Licence P.213/Block 16/26 (Area P)	Caledonia	ChevronTexaco	25.78%
UK	Licence P.249/Block 14/19	Claymore	Talisman	7.52%
UK	Licence P.472/Block 210/24b	Hudson	Amerada Hess	19.50%
UK	Licence P.226/Block 210/15a	Otter	Total	19.00%
UK	Sullom Voe Oil Terminal	Sullom Voe Oil Terminal	BP	0.38%
UK	Licence P.025/Block 49/22 (Victor)	Victor	ConocoPhillips	10.00%
<b>International Commercial Fields and Infrastructure Interests</b>				
Russia	Vat-Yoganskoye	South Vat-Yoganskoye	Yoganoil	80.00%
Russia <sup>1</sup>	Salym	Upper Salym	SPD	10.00%
<b>UK Exploration Interests including Oil and Gas Discoveries</b>				
UK	Licence P.226/Block 210/15a	–	Total	19.00%
UK	Licence P.1021/Block 210/20d	–	Total	26.00%
UK	Licence P.472/Block 210/24a	Melville	Amerada Hess	19.50%
UK	Licence P.570/Block 210/24b	–	Amerada Hess	19.50%
UK	Licence P.212/Block 211/8a	211/8a-2	CNR	55.07%
UK	Licence P.188/Block 211/11a	–	BP	25.00%
UK	Licence P.090/Block 3/25a (Deep)	3/25a-2	Total	15.00%
UK	Licence P.219/Block 16/13a	Enoch & J1	Shell	11.00%
UK	Licence P.883/Block 21/11a	Dauntless	Amerada Hess	53.50%
UK	Licence P.073/Block 21/12 F1	Goosander	Shell	37.37%
UK	Licence P.073/Block 21/12	–	Shell	48.99%
UK	Licence P.073/Block 21/13a	–	Shell	44.99%
UK	Licence P.883/Block 21/16a	Durward	Amerada Hess	53.50%
UK	Licence P.1051/Block 23/11	–	Amerada Hess	27.00%
UK	Licence P.749/ Blocks 23/16c, d & 17	Barbara	Amerada Hess	27.00%
UK	Licence P.359/Block 23/16b (Deep)	Mortimer	Amerada Hess	15.00%
UK	Licence P.224/Block 29/2a	29/2a-2	ConocoPhillips	13.50%
UK	Licence P.607/Block 43/19a	Cavendish	RWE	25.00%
UK	Licence P.894/Block 44/24c	–	Consort	35.00%
UK	Licence P.695/Block 48/7c	48/7c-11	Amerada Hess	20.00%
UK	Licence P.458/Block 48/8c	–	Amerada Hess	20.00%
<b>International Exploration Interests including Oil and Gas Discoveries</b>				
Australia	Exploration Permit WA-226-P	–	Origin	30.00%
Faroe Islands <sup>2</sup>	Exploration Licences 002 & 005	–	ENI-Agip	5.23%
Ghana	Western Tano Contract Area	WT-1X & WT-2X	Dana	90.00%
Indonesia	Pangkah PSC	Ujung Pangkah & Sidayu	Amerada Hess	12.00%
Ireland	Exploration Licences 5/95 & 8/95	–	ChevronTexaco/Statoil	8.44%
Kenya	Block L5, L7, L10 & L11 PSCs	–	Dana	80.00%
Mauritania	Block 1 PSC	–	Dana	48.00%
Mauritania	Block 7 & 8 PSCs	–	Dana	80.00%
Netherlands	Production Licence F16-E	F16-E	Wintershall	2.22%
Netherlands	Production Licences E15 & F13	F16-E (extension)	Wintershall	1.33%
Netherlands	Exploration Licence A15	A15-3	Wintershall	9.00%
Netherlands	Exploration Licence E18a	E18a-4	Wintershall	5.00%
Netherlands	Exploration Licence B17a	B17a-6	Wintershall	8.83%
Russia <sup>1</sup>	Salym	W Salym & Vadelypskoye	SPD	5.00%
Russia <sup>3</sup>	Sortymskoye	E & W Sortymskoye	Yuganskoil	30.00%

1. Held via Evikhon 2. Held via Faroe Petroleum Limited 3. Held via Yuganskoil

