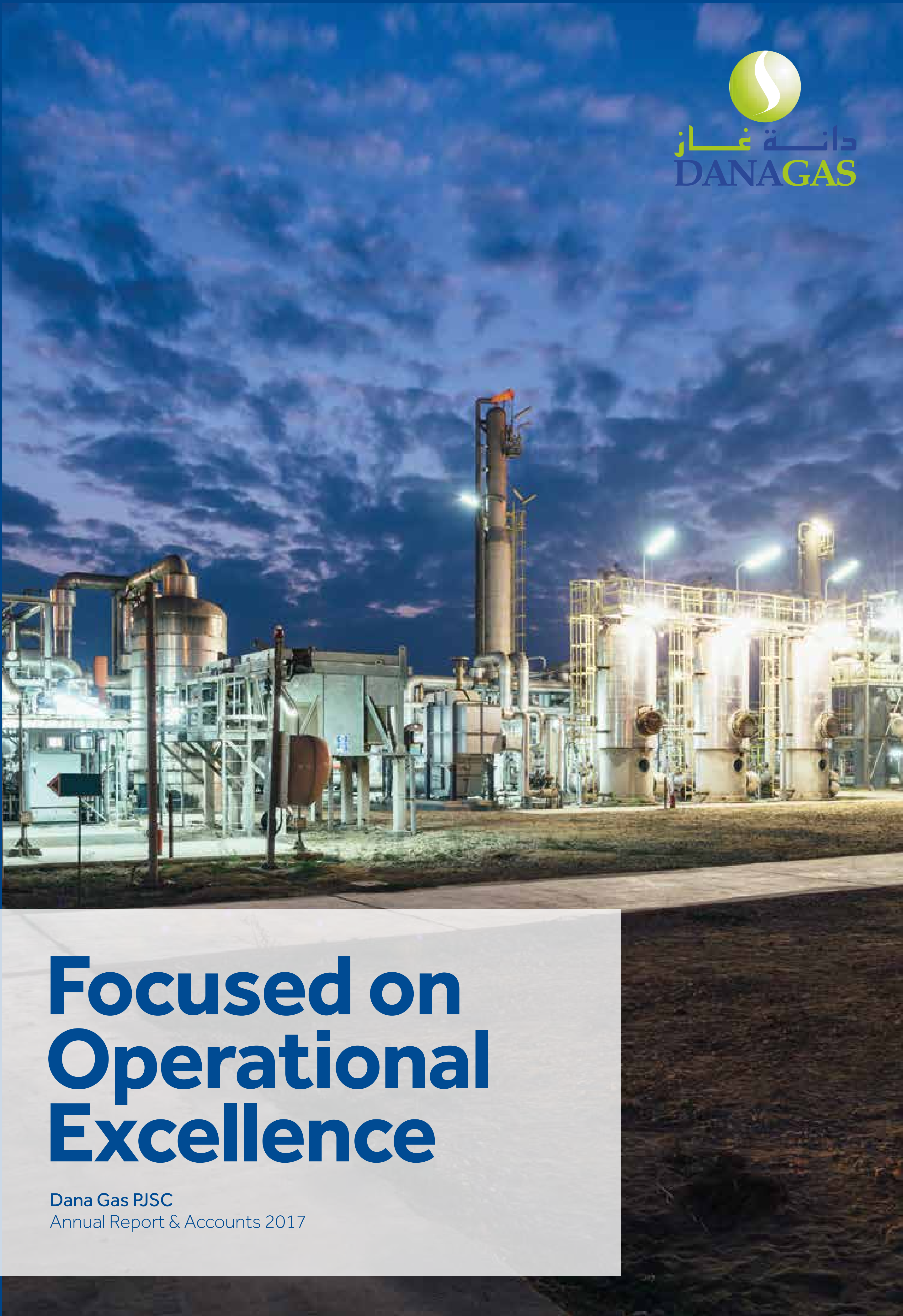

Focused on Operational Excellence

Dana Gas PJSC
Annual Report & Accounts 2017

Dana Gas is the Middle East's first and largest regional private sector natural gas company. It was established in December 2005 with a public listing on the Abu Dhabi Securities Exchange (ADX).

Dana Gas has exploration and production assets in Egypt, Kurdistan Region of Iraq (KRI) and UAE, with an average production output of 67,600 boepd, in 2017. With sizeable assets and reserves in Egypt, KRI and the UAE and further plans for expansion, Dana Gas aims to play an important role in the rapidly growing natural gas sector of the Middle East, North Africa and South Asia region (MENASA).

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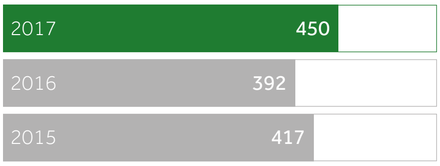
Highlights

Gross revenue (million US$)

US$450m

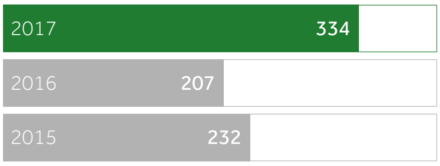
2016: US$392m



EBITDA (million US$)

US$334m

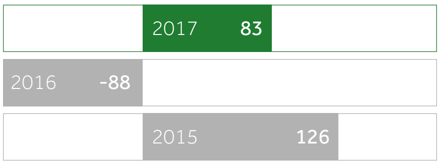
2016: US$207m



Net profit (million US$)

US$83m

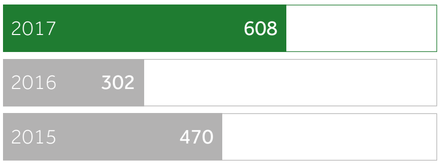
2016: US$-88m



Cash balance (million US$)

US$608m

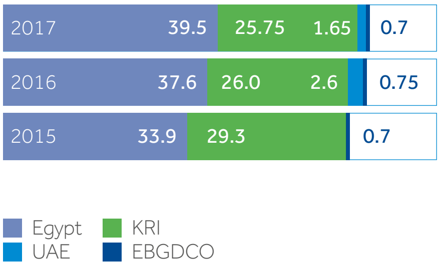
2016: US$302m



Production (mboed)

67.6mboed

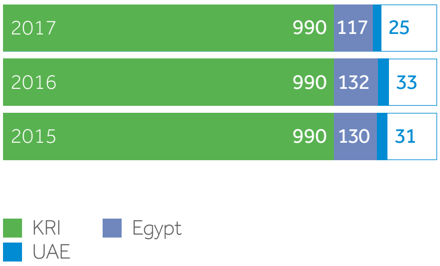
2016: 67.1 mboed



2P reserves (mmboe)

1,132mmboe

2016: 1,155 mmboe



Dana Gas is the Middle East's first and largest regional private sector natural gas company. It was established in December 2005 with a public listing on the Abu Dhabi Securities Exchange (ADX).

Our Vision

To be the leading private sector natural gas company in the Middle East, North Africa and South Asia (MENASA) region generating sustainable value for our stakeholders.

Our Strategy

- Focus on sustainable growth in the MENASA region across the natural gas value chain.
- Leverage strategic relationships to maintain competitive advantage.
- Continuously enhance technical and commercial skills to develop and operate assets safely and efficiently.

Our Values

- We set and apply the highest standards of conduct and accountability.
- We respect and value everyone and embrace diversity.
- We strive to devise and implement innovative ways to improve our business and fulfil our commitments.
- We aim to provide a safe and environmentally friendly workplace for our employees and business partners and to minimise the adverse effects of our operations on communities and the environment.

67.6
Group production (mboed)

1,132
2P reserves (mmboe)

500
mmscfd planned gas production increase in KRG

20.0
mbbld planned condensate production increase in KRG

US$608m
cash balance – 31 December 2017

US$83m
Net profit

Where We Operate

Dana Gas has exploration and production assets in Egypt, Kurdistan Region of Iraq (KRI) and UAE. With sizeable assets and reserves in Egypt and further plans for expansion, Dana Gas aims to play an important role in the rapidly growing natural gas sector of the Middle East, North Africa and South Asia region (MENASA).

Egypt

39,500 boed

- Top 5 gas producer in-country
- 14 development leases and 3 exploration concessions
- Significant upside exploration

See more on page 18

Kurdistan Region of Iraq

25,750 boed

- 2 world class fields – largest gas reserves in KRI
- 9+ years of historical production
- Supplies two major power stations with gas

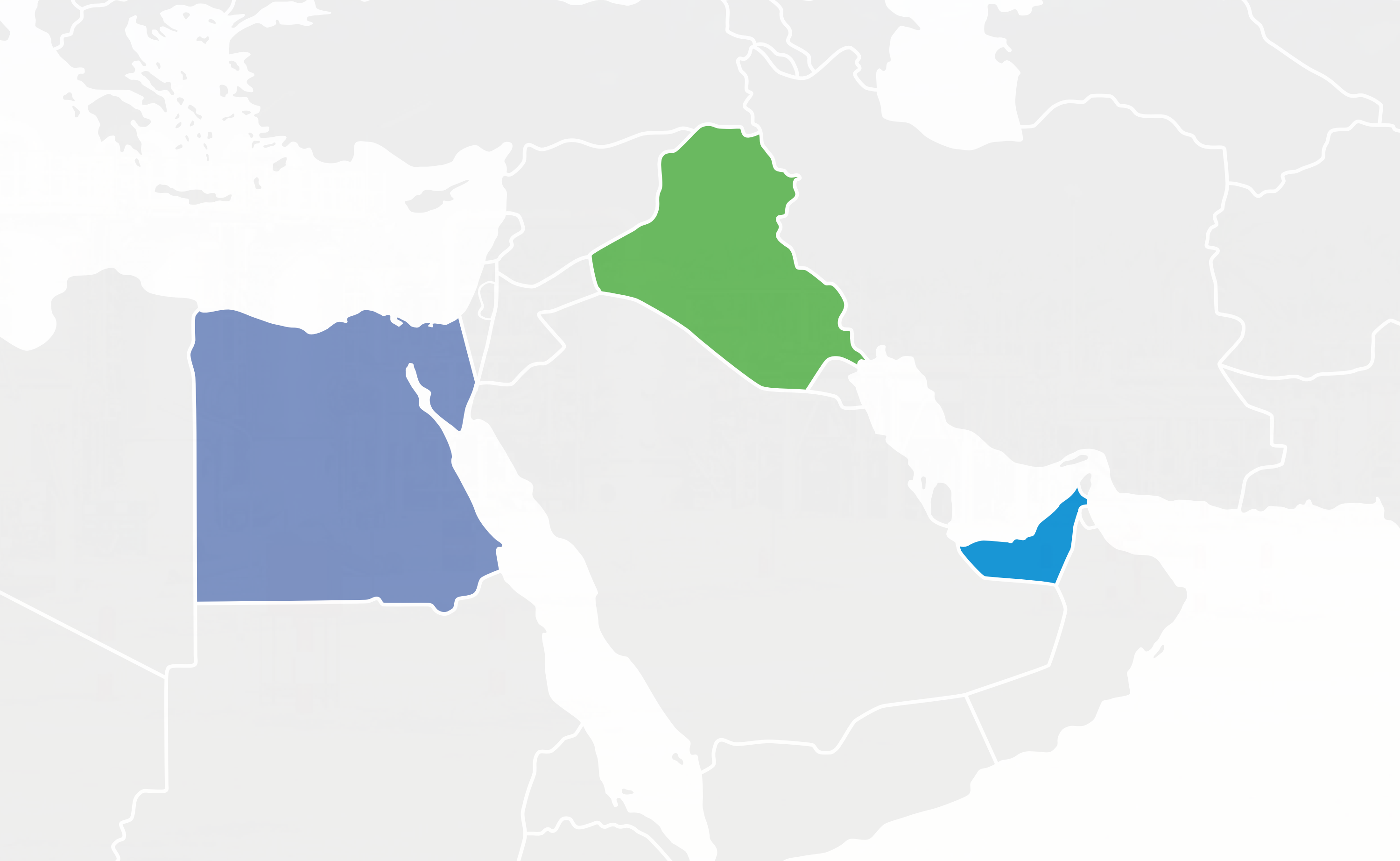
See more on page 22

UAE

1,650 boed

- Zora – offshore gas field project
- UAE pipeline

See more on page 26



We worked hard this year to navigate our way through a host of challenges and issues to deliver a strong operational performance and to post an outstanding set of financial results.

Dear Shareholders,
In 2017, for the second successive year, the average oil price rose and ended the year higher than the year before. As a result, the outlook for the global industry continues to strengthen. Whilst it has been a difficult three years, we have overcome the challenges resulting from the low price environment and are now in a strong position to benefit from the operational and organisational improvements that have been implemented during that period and to realise our full potential.

A key part of our strategy over the last few years has been to resolve the outstanding contractual dispute with the Kurdistan Regional Government (KRG) which has been subject to arbitration since October 2013. I am very pleased to tell you that we managed to resolve the dispute amicably and in good faith in August 2017 with the signing of the Settlement Agreement. The terms of the settlement agreement with the KRG are favourable for all concerned. The long-term potential of our two fields in the Kurdistan Region of Iraq (KRI) is world-class, the Company estimates in place resources of 75 Tcf of gas and 7 billion bbls oil. There are ambitious plans to grow production in the next three years by 170%. Furthermore, our relationship with the KRG is back on solid ground. It is worth noting that, despite our ongoing dispute, we never stopped investing or operating in the KRI. Despite all of the geopolitical and security challenges that we have faced, we have been producing continuously for nine years and our investment represents one of the largest private sector investments in the country's oil and gas sector.

Our financial performance in 2017 was strong; we recorded a net profit of US$83 million, a significant improvement from the loss of US$88 million we reported the prior year. Our revenue was US$450 million, up 15% from 2016 drive by improved Group production, higher oil price and the successful settlement agreement. We finished the year with net cash balance of US$608 million, our highest cash position in ten years, due to the Egyptian government industry payments mid-year totalling US$110 million, the KRG cash payment of US$210 million as part of the settlement agreement, as well as our regular income from our operations. Our collections this year in the KRI have been consistent, the KRG has been paying us regularly since the Settlement Agreement. The Company cash balance at the end of 2017 does not include US$140 million which is held by Pearl for investment in further developing the assets in the KRI.

In the light of our strong financial position the Board of Directors and I have been reconsidering our dividend policy and we are pleased to tell you that we have recommended for the approval of our shareholders a dividend payout this year. Going forward, the Board of Directors and I will review any additional dividend payments prudently, taking into consideration the Company's financial strength, collections, working capital needs and future investment requirements.

Over the last few years we have continued to invest in our countries of operation. In the KRI levels of production and investment have remained steady. In Egypt it has been a good year for us with annual production up by 5% despite a cautious level of capital expenditure on new wells and work-overs in the light of uncertainty in the timing and level of collections. Other than the bullet payment received mid-year, collections in Egypt in the second half have been sporadic and disappointing. Whilst the Board and management are working hard to improve this we are also considering our overall investment plans for Egypt. In the immediate future we will continue our policy of balancing collections with levels of capital expenditure and our strict disciplinary approach with respect to expenditures and costs. In the UAE, the Zora Gas Field's performance has not met our expectations since it started producing in February 2016. The fields' output is less than a quarter of what it was planned to be. Extensive subsurface studies have revealed unexpected complexity with respect to reservoir deliverability. The latest reserves report has led us to recognise a reduction in our 2P reserves for the field, leading to an impairment on the asset. We will continue to manage the reservoir closely with a view to maximising overall ultimate recovery.

The need to refinance and restructure our Sukuk, which fell due for repayment at the end of October 2017, has occupied much attention from management and Board alike. The Company started this process consensually in May 2017 and asked the Sukuk holders to form an Ad-Hoc Committee and appoint advisors so that an organised consensual process could be pursued. However, shortly thereafter, we were unexpectedly and shockingly threatened by the Delegate and Trustee with a Dissolution Event and Notice of Default. Had this happened it would have been catastrophic for the Company and to all its stakeholders as it put billions of dollars of value at risk. The Company had no alternative but to take urgent injunctive measures to protect itself and its assets and to give itself the time for its consensual restructuring proposition to be discussed and agreed. Regrettably, however, our attempts to pursue a consensual negotiated outcome were rebutted by the Ad-Hoc Committee in favour of a non-consensual legal solution. The litigation process has evolved to include some of the Company's shareholders with court hearings proceeding in both the UK and UAE jurisdictions with conflicting orders being issued by these respective courts. Outcomes are therefore highly uncertain at this point for the Sukuk holders with a risk that the UAE court process will result in a reconciliation of the Sukuk as a matter of UAE law leading to significant impairment of value. Meanwhile, our financial adviser has been engaging with a local Sukuk holder who has joined the Ad-Hoc Committee and who has been prepared to try to find common ground to resolve the current situation.

With regard to the NIOC arbitration, significant progress has been made by our affiliate company, Crescent Petroleum. After receiving a Tribunal ruling in their favour which confirmed the validity of their contract mid-2014, a final hearing took place in October 2017 to determine the damages resulting from NIOC's breach of contract. A final decision on damages is due between now and October this year.

The future is certainly looking far more promising for Dana Gas than it did a year ago. With the Settlement Agreement with the KRG behind us, we are looking forward to a phase of significant investment and production growth in the KRI. Our targeted production increases are 20% this year and 170% within two to three years. If all goes according to plan we will be producing in total just under 900 million standard cubic feet per day from our expanded facilities by 2021. In Egypt, permits are being sought to drill a potential game changing deep water exploration well in our offshore Block 6 concession early 2019. We are also in a strong cash position with the potential for further money that may flow from the NIOC arbitration case.

Board and management

On behalf of the Board of Directors, I would like to express our gratitude for the continued support of our Honorary Chairman, His Highest Sheikh Ahmed bin Sultan Al-Qasimi, Deputy Rules of Sharjah and Chairman of the Sharjah Petroleum Council. We would also like to extend our gratitude to our shareholders for their continued support for the Company and their confidence in the growth potential of Dana Gas.

I would also like to express my thanks to our employees, some of the best and most professional men and women in the oil and gas industry, for their commitment and contributions in 2017. In addition, I would like to thank our management team for their dedication hard work and individual drive, which have been vital to the success of Dana Gas and in achieving another year of good performance despite the challenges. Lastly, I would like to thank my fellow Board members for their continued oversight and policy guidance to the executive management team.

Conclusion

We worked hard this year to navigate our way through a host of challenges and issues to deliver a strong operational performance and to post an outstanding set of financial results. The Settlement Agreement with the KRG was the real highlight of the year and our principal focus for the next two to three years is on turning the potential of our world-class fields in the KRI into reality. Challenges remain in 2018 and the Board and Executive Management's attention and focus will be on satisfactorily resolving the situation with the Company's Sukuk, obtaining the final damages award from the NIOC arbitration and benefitting from this, improving collections from the Egyptian government and further decreasing the receivables payments and last but not least making the exciting investments and carrying out activities in the KRI that will finally unleash the full value and potential of our incredible assets located there.

Mr. Hamid Dhiya Jafar
Chairman

2017 has been a transformational year for us. We faced several very important events, both within the Company and externally, that has fundamentally changed our long-term future.

Introduction

The biggest turning point took place on 30 August, when our partner, Pearl Petroleum, successfully agreed a landmark settlement and drew to a close its arbitration with the Kurdistan Regional Government (KRG). We have been in dispute with the KRG for many years and I am delighted that the dispute has finally been resolved with such a positive outcome for Dana Gas, its partners, its stakeholders in general and for the Government and people of the KRI. The settlement finally allows us to move ahead with the development of our two world-class fields, Khor Mor and Chemchemal. The Settlement Agreement allows us to embark on an appraisal and development programme in the Kurdistan Region if Iraq (KRI) that will unlock multi-billion dollars' worth of value.

On a performance level, the challenges that we faced in 2016, such as lower oil prices, were replaced this year with heightened geopolitical risk and uncertainty in the region, and other macro-economic factors. Nevertheless, we have delivered an outstanding performances, both operationally and financially. Looking at production first, our Group output slightly increased on a comparable basis to average 67,600 boepd over the year despite facing a number of operational challenges with planned maintenance work on our gas plants in both Egypt and the KRI, a minimal capital expenditure spent on new wells and work-overs and a larger than expected decrease in output from the Zora field in the UAE. Financially, we posted a stronger set of revenues and booked a net profit of US$83 million for the full year, a significant increase compared to a net loss of US$88 million in 2016 despite taking an impairment charge on our UAE asset of US$34 million.

Kurdistan Region of Iraq – the jewel in our crown

2017 involved one of the most notable achievements for the Company to date. On 30 August, the KRG signed a settlement agreement with Pearl Petroleum Co. Ltd. I will just touch on the key benefits of the deal. The total settlement amount was US$2.2 billion, of which Pearl was paid US$1 billion in cash and the balance, US$1.2 billion, was transferred into Petroleum Costs. Of the US$1 billion paid in cash, US$600 million was disbursed immediately to the shareholders of which DG's share was US$210 million. A further US$400 million was placed into a reserved account to fund future investment, DG's share of which is US$140 million. As and when future investment is financed by third parties then this reserved amount can also be returned to shareholders. Some of the other additional benefits from the settlement are as follows:

1) Firstly, Pearl was awarded an extension to the Khor Mor block boundaries to encompass the entirety of the field as currently mapped.
2) Secondly, the KRG has awarded the Consortium investment opportunities in Blocks 19 and 20 located adjacent to Khor Mor and added these to the contract areas.
3) Thirdly, the length of the licenses was extended by 12 years and they now expire in 2049, which importantly gives Pearl sufficient time to fully exploit these assets.
4) Lastly there was an advantageous change in the profit sharing arrangement to bring it in line with that received by other international oil companies operating in the region.

Most importantly, however, the settlement has lifted the barrier to investing and growing our operations in the region and allows Pearl to start to fully develop the Khor Mor and Chemchemal fields. Based on an independent external auditor report, the results of which we announced in 2015, Dana Gas believes that the in-place resource potential of these two fields is up to 75 trillion cubic feet of gas and 7 billion barrels of oil. This makes our KRI assets one of the largest undeveloped gas reserves in the Middle East. To provide a sense of scale, this is 2.5 times the size of ENI's Zohr gas discovery in Egypt. Dana Gas' share of the probable reserves alone is close to one billion barrels of oil equivalent.

Pearl currently has an ambitious but achievable plan to increase current production from 300 million cubic feet to just under 900 million cubic feet of gas and 36,000 bbls condensate a day within two to three years. To achieve this, we aim to fast-track the debottlenecking of the existing facilities by 50 to 80 million standard cubic feet per day and to increase gas production at Khor Mor by an additional 500 million standard cubic feet per day. This would result in production increases of 20% this year and 170% by 2021 if all goes according to plan. This is an incredibly exciting time for us as well as the oil and gas industry in Kurdistan as a whole.

67.6 mboe
production

39%
drop in recordable injury rate

14%
G&A and OPEX reduction within 2 years

Higher production and improved financial results

Group production was 67,600 boepd, up 1% year-on-year, achieved with minimal additional capital expenditure. This was an amazing achievement of which I am incredibly proud. We made significant efforts to make sure we continued to deliver value and growth in 2017 without compromising any part of our operations. We had two maintenance shutdowns during the second and third quarter in our plants in Kurdistan and Egypt; we completed the South Faraskur Compression project on the El Wastani Gas plant, adding 5 million cubic feet of gas per day to our output; and all other projects related to improving performance were completed on time and on budget by year end.

Whilst the KRG Settlement Agreement was a significant milestone, there were other major achievements in 2017. An important one of these was receiving US$110 million mid-year as part of an industry payment from the Egyptian Government. Also, in the second quarter and on two further occasions in 2017, we sold condensate export cargoes directly to international buyers for a total of US$22 million. This was one more cargo than forecast as result of debottlenecking efforts that were carried out. The condensate export scheme is part of the Gas Production Enhancement Agreement agreed with the Egyptian Government in September 2014. We are pleased to see that the mechanism we worked tirelessly to put in place is working and the cash proceeds generated from the Government's share of the incremental condensate sales are contributing towards

Dr Patrick Allman-Ward
CEO of Dana Gas

Dana Gas reported gross revenue of US$450 million and gross profit of US$118 million, both up approximately 15% as compared with 2016.

paying-down the outstanding receivables owned to Dana Gas by the Government. The income from Egypt together with the US$210 million received as part of KRG Settlement, together with regular monthly payments from the KRI coupled with our hard work in keeping our costs and expenses to a minimum, our G&A and operational expenditure was US$67 million (in line with 2016), has resulted in a strong set of financial results.

A key highlight is that at year end the Company had US$608 million of cash at bank. It is important to note that this does not include US$140 million representing Dana Gas' share of the US$400 million set aside in the KRI development fund. The strong cash balance is largely a consequence of the funds received from the KRG settlement and the large industry payment of US$110 million from Egypt. For the full year 2017, Dana Gas reported gross revenue of US$450 million and gross profit of US$118 million, both up approximately 15% as compared with 2016. EBITDA was US$334 million as compared to US$207 million in 2016, an increase of 61%. The revenue growth underpinning these figures was mainly due to higher realised prices of US$45 per barrel for condensate and US$30 per barrel of oil equivalent for LPG and increased production.

Challenges remain

In Egypt, our receivables have remained above the US$200 million threshold at year-end for the seventh consecutive year. Despite collecting US$164 million during the year, which was 129% of billings, our total receivable balance only fell to US$228 million from US$265 million. Collections in the second half of the year in particular were sporadic and below expectations. We continue to hold high-level talks with the various Ministries, reminding them of our long-term potential and our need to balance our capital expenditure commitments against our collections. With a more positive macro-economic outlook in Egypt and the Zohr field coming on-stream, which should reduce the need to import expensive LNG, we hope for a better outcome regarding our collections in 2018.

We executed a limited capital expenditure programme in 2017, concentrating on completing projects to maintain asset integrity and critical infrastructure projects, such as the South Faraskur Compression, which helped us increase our production flow and output. However, we cannot reverse the natural declines that every field faces. With limited drilling we have not been able to replace production and our 2P reserves have fallen in Egypt by 11.4% to 117 million barrels of oil equivalent.

Drilling on Block 1 began in November with a programme of between two to four wells which we hope will replenish some of our reserves. In addition, we continue to advance our sub-surface understanding of the deep, material lower Miocene Qantara play within our existing acreage. With more consistent collections we will review our activity plan in 2018 with a view to drilling more production wells. Meanwhile we continue to plan for the drilling of the next major potentially game-changing exploration well in Egypt in the deep-water part of our offshore Block 6 El Arish Concession which is planned for early 2019.

Of course, in the light of the KRG Settlement Agreement, the main focus of our activity in 2018 is on our Kurdistan operations. Pearl is currently planning an ambitious appraisal and development programme in 2018 which will include drilling two appraisal wells in Chemchemal, up to four development and appraisal wells in Khor Mor and we will work-over our six existing producing wells there. Together with the debottlenecking project Dana Gas' share of the total capex in 2018 will be US$90 million of which US$53 million will be funded either from the US$400 million investment fund or third-party financing and US$37 million from operating cash flow. Hence there will be no cash call on Dana Gas in 2018 to fund this challenging but exciting programme of activities.

US$ 3.8bn
assets

1,132 mmboe
2P reserves

US$ 608m
receivables

Performance of our offshore Zora Field in the UAE remains disappointing and we have had to partially write-down the asset. Our detailed modelling of the future performance of the field, based on production history and an improved understanding of the subsurface, has led us to conclude that not all of the reservoir is productive with today's technology. Therefore, the prudent approach was to re-classify a portion of the probable reserves to Contingent Resource. The result is that we have taken an impairment charge of US$34 million following the reserve year-end report. We are focused on doing everything we can to carry on producing for as long as possible going forward.

Partner of choice

We are committed to safeguarding the environment, protecting the safety and health of our employees and the communities in which we operate and upholding the high standards of social responsibility throughout our operations. The safety of our people is a top priority. This year we completed a major shutdown of the El Wastani gas plant in Egypt with an outstanding HSSE performance. It took place over a ten-day period, involving 1,300 contractors onsite and with the successful completion of 100 major planned shutdown job activities. All activities were completed during Ramadan without any safety or environmental incidents, on time and under budget.

Our HSSE performance on the Zora project continues to be outstanding. Continuing on from the 1 million man-hours LTI free achieved during the plant construction, our Zora gas plant and operations achieved the milestone of 900 days injury free on 18 March. Our structured HSE processes and regular training provide the necessary environment for our employees to adhere to our safety policies and procedures.

In 2017, we welcomed the publication of our first Sustainability Report for the calendar year 2016, prepared in accordance with the Global Reporting Initiative Standards. The report details our actions, progress and initiatives related to our economic, environmental and social performance and records the progress we have made in these areas. This year, we have established commitments to develop new social and environmental performance metrics that will allow us to enhance the transparency of our own performance and to strengthen our reporting practices. We are committed to issuing one every year.

I want to highlight one of our main programmes in 2017. We are now in partnership with AMAR Foundation and are funding a Primary Healthcare Centre and adult training in the Khanke camp, Dohuk governorate in northern Iraq for Internally Displaced People. We have committed funding for a three-year period, securing life-saving health services for as many as 18,500 people each month.

Our funding has meant critically uninterrupted delivery of health services through the Primary Health Care Centre, the Women Health Volunteers (WHV) programme, community mental health outreach activities and vocational skills training for adults.

Conclusion

We look back at 2017 as the year in which our world-class assets in Kurdistan finally became unlocked. The Company has massive organic growth potential. In the KRI we have over 1 billion in probable resource potential waiting to be developed. Our development programme in Kurdistan has already begun with a plan to be producing close to 900 million standard cubic feet per day by 2021 (at Consortium level). We are also planning to drill one high-impact well in Block 6 in Egypt in 2019.

The future is certainly exciting but is not without its challenges. I would like to thank the Board, all Dana Gas staff, investors and stakeholders for their tireless efforts and support, and look forward to delivering another year of robust business performance in 2018.

HH Sheikh Ahmed Bin Sultan Al-Qasimi
Honorary Chairman

Honorary Chairman of Dana Gas PJSC, Deputy Ruler of Sharjah and Chairman of the Sharjah Petroleum Council.

Mr. Hamid Dhiya Jafar
Chairman

Mr. Jafar is the Chairman of the Board of the Crescent Group of companies. In addition to his primary business in oil and gas, Mr. Hamid has a variety of global commercial interests including container shipping, terminal operations, transport and logistics, real estate, power generation and private equity. Mr. Hamid has also promoted important projects in higher education at Cambridge University and the United Arab Emirates. He is also an active supporter of many charities.

Mr. Rashid S. Al-Jarwan
Vice Chairman and Chair of the Board Steering Committee

Mr. Al-Jarwan Rashid is the Vice Chairman of Dana Gas. He also serves on the Board of Emirates General Petroleum Corporation, Oman Insurance Company, DIFC Investments, Mashreq Bank and Al Ghurair Holding Company. During his extensive oil and gas experience of more than 40 years, Mr. Al-Jarwan was Acting CEO of Dana Gas for one year and General Manager for three years. Mr. Al-Jarwan held the position of General Manager in ADGAS for eight years and several technical and managerial posts in ADNOC Group of companies in Abu Dhabi for 28 years.

HE Sheikh Sultan Bin Ahmed Al-Qasimi
Director

HE Sheikh Al-Qasimi is the Deputy Chairman of the Sharjah Petroleum Council and Chairman of Sharjah Media Corporation. HE Sheikh Al-Qasimi has key achievements in the media sector including establishing Al Majaz Amphitheatre and Al Sharqiya TV and establishing Sharjah24.ae. Previously he held several positions including Deputy Chairman of Sharjah Equestrian and Racing Club, Chairman of Sharjah Commerce and Tourism Development Authority and contributed to the inauguration of Sharjah Light Festival.

Mr. Varouj Nerguizian
Director & Chair of Audit and Compliance Committee

Mr. Varouj Nerguizian has been the General Manager of Bank of Sharjah, UAE since 1992. He is also the Chairman and General Manager of Emirates Lebanon Bank SAL, Lebanon (member of Bank of Sharjah Group) since 2008. Mr. Nerguizian is a Founding Board Member of Dana Gas and the Chairman of the Audit & Compliance Committee. In addition, he serves as Board Member of Growthgate PEF. He is also a Founding Member and Chairman of the Lebanese Educational Fund SA, and of the Lyceé Libanais Francophone Privé in Dubai since 2003.

Mr. Said Arrata
Director & Chair of Reserves Committee

Mr. Arrata is the Chairman and CEO of Delta Oil and Gas in the United Kingdom which is involved in exploration and production of oil and gas concessions. He is a Board Member at Deep Well Oil and Gas Incorporation. He was Chairman and CEO of Sea Dragon Energy in Canada until 2015 and was also CEO of Centurion Energy International Incorporation, and served in senior management positions in major global oil companies in Canada and around the world.

Mr. Abdullah Al-Majdouie
Director & Chair of CGR&N Committee

Mr. Al-Majdouie has been the Group President and Vice Chairman of Almajdouie Holding Company since 1986. He holds several chairmanships in GCC companies including Almajdouie De Rijke Logistic in KSA, Star Marines Services in Dubai, Petrology LLC in Bahrain and Raya Financing Co. in KSA. Mr. Al-Majdouie is also the Vice Chairman of Dhahran International Exhibitions. In addition, he serves on the Board of several companies and government bodies, private businesses and social & charitable organisations in Saudi Arabia and GCC.

Mr. Majid Hamid Jafar
Director

Mr. Jafar is the CEO of Crescent Petroleum in Sharjah and Vice-Chairman of the Crescent Group of companies. He is also Managing Director of Board Affairs of Dana Gas. His previous experience was with Shell International's Exploration & Production and Gas & Power Divisions. Mr. Jafar currently serves on the Board of the Arab Forum for Environment and Development, Carnegie Middle East Center, the Higher Colleges of Technology, Queen Rania Foundation and the Iraq Energy Institute. He is also an active member of several organisations and an accredited Director of the Institute of Directors (IoD Mudara).

Mr. Ziad Abdulla Galadari
Director

Mr. Galadari is the Founder and Chairman of Galadari Advocates & Legal Consultants and has been practicing as Advocate, Legal Advisor and Arbitrator since 1983. He is the Chairman of Galadari Investments Group, Dubai International Arabian Horse Championship and Jebel Ali Racecourse Council. Mr. Galadari serves on the Board of Dubai World Trade Centre and Emirates Integrated Telecommunications Company PJSC (DU). In addition, he is a member of Lawyers International Association and Institute of Chartered Arbitrators.

Mr. Nasser Mohamed Al-Nowais
Director

Mr. Al-Nowais is the Chairman of Rotana Hotel Management Corporation. Ltd. and also the Chairman of Aswaq Management and Services. In addition, he was the Managing Director of Abu Dhabi Trade Center. He served as Former Under-Secretary of UAE Ministry of Finance and a Former General Manager of Abu Dhabi Fund for Development. He also served as Chairman of Abu Dhabi National Hotels Company and was on the Board of Abu Dhabi Council for Economic Development and Arab Insurance Group.

Mr. Hani Hussain
Director

Mr. Hussain served as the Oil Minister in Kuwait until 2013 and Chief Executive Officer of Kuwait Petroleum Corporation (KPC) until 2007. He serves on the Board of several companies including Advanced Petrochemical Company in KSA, Kuwait Foundation for the Advancement of Science and Warba Bank in Kuwait, in addition to his membership in the Supreme Council for Planning in Kuwait. Previously he held various executive positions in several oil and petrochemical companies in Kuwait.

Mrs. Fatima Obaid Al-Jaber
Director

Mrs. Al-Jaber is currently a member of the Board of Directors of the Al-Jaber Group and former Group Chief Operating Officer. Mrs. Al-Jaber worked with the Abu Dhabi Government in various technical and managerial positions, including her role as Assistant Undersecretary for Projects & Technical Services at Abu Dhabi Public Works Dept. and Abu Dhabi Municipality. Mrs. Al-Jaber founded Al Bashayer Investment Company as a wealth management service provider for female investors and acts as the Chairman.

Dr. Mohamed Nour El Din El Tahir
Board Secretary and Advisor to the Chairman

Dr. Tahir has been the Board Secretary and Advisor to the Chairman since 2016. He was the General Counsel and Corporate Secretary of Dana Gas for 10 years. Earlier he held a similar position at the Arab Petroleum Investment Corporation (APICORP) in Dammam, Saudi Arabia. Dr. Tahir was engaged in the legal field in Sudan, both academically and professionally, as a lecturer and associate professor in the Faculty of Law at the University of Khartoum and a private practice legal consultant, respectively.

International Advisory Board

Dana Gas has adopted the concept of the International Advisory Board (IAB). The purpose of this Board is to provide strategic advice to the Board of Directors and the management, as well as to identify specific business opportunities and build relationships worldwide.

(Left to right)

Mr. Kai Hietarinta
Former Vice Chairman of Neste Oy of Finland

Dr. Joseph Stanislaw
Former CEO of Cambridge Energy Research Associates (CERA)

Mr. Nordine Ait-Laoussine
Former Algerian Oil Minister and former Head of Sonatrach

Sir Graham Hearne
Chairman of the International Advisory Board, former Chairman of Enterprise Oil Plc of the UK

Ms. Razan Jafar
Secretary of the International Advisory Board

Mr. Hamid Dhiya Jafar
Chairman of Dana Gas

Lord Simon of Highbury
Former Chairman of British Petroleum (BP)

Dr. Burckhard Bergmann
Former member of the Board of Russian gas company Gazprom

Dr. Nader Sultan
Former CEO of Kuwait Petroleum Corporation and Director of the Oxford Energy Seminar

Management

Dr. Patrick Allman-Ward
Director & CEO

Dr. Allman-Ward is CEO of Dana Gas. He is an accomplished international energy executive with over 35 years of experience in the oil and gas industry. He has held senior positions in locations all over the world, including the Middle East.

Dr. Allman-Ward started his career at Shell in 1982, where he gained extensive experience in a wide range of fields and held many senior positions. Dr. Allman-Ward joined Dana Gas in August 2012 as the General and Country Manager of Dana Gas Egypt. In 2013 Dr. Allman-Ward was selected by the Dana Gas Board to take over as CEO of the Dana Gas Group.

Dr. Allman-Ward studied geology at Durham University and earned his PhD from the Royal School of Mines, Imperial College London.

Chris Hearne
Chief Financial Officer

Mr. Hearne is the Chief Financial Officer (CFO) of Dana Gas. He joined the Company in early 2016.

Previously, Mr. Hearne was with Serica Energy plc, an international oil exploration and production company listed on the AIM market in London, where he served as CFO and Director from 2005. Mr. Hearne has over 20 years' experience within the oil industry having been CFO and Senior Vice President of Erin Energy, a NYSE listed company with oil assets across Africa, and with Intrepid Energy North Sea Limited.

Mr. Hearne was originally an investment banker and has extensive experience of corporate finance transactions, including capital markets and M&A. He spent 10 years with Lehman Brothers International and Robert Fleming & Co.

Iman Hill
Technical Director, GM UAE & President Egypt

Ms. Hill joined Dana Gas in 2015 as a Technical Director and is General Manager for the UAE and President Egypt. She is also the Managing Director and Board member of The Egyptian Bahraini Gas Derivatives Company, a JV between EGAS, Dana Gas and APICORP.

Prior to joining Dana Gas, Ms. Hill was Vice President of Development and Production Africa for Sasol E&P International, Managing Director, Chairwoman of Shell Egypt, and Senior Vice President for Brazil with BG Group. She was also Non-Executive Director of Outokumpu, Europe's largest steel company.

Ms. Hill is a Petroleum Engineer with 30 years of experience in the oil and gas industry across the MENA region, Africa, Latin America and the Far East.

Duncan Maclean
Legal and Commercial Director

Mr. Maclean is Legal and Commercial Director of Dana Gas. Mr. Maclean joined Dana Gas in 2014 as the Commercial and Business Development Director.

Previously, Mr. Maclean was a partner with the global law firm of Squire Patten Boggs based in Perth, Australia, and was the Co-Chair of the firm's global energy and resources group. Mr. Maclean is admitted to the Supreme Courts of Western Australia, South Australia, the Northern Territory and the High Court of Australia. He has over 20 years' extensive experience of practicing international energy law.

Bruce Basaraba
Head of HSSE and Sustainability

Mr Basaraba is responsible for the direction and leadership of the Group's performance for HSSE and sustainability.

He has over 40 years of experience in environmental and safety management, sustainability, human resources, employee development, operations, maintenance and project management.

He began his career in 1972 as a Maintenance Technician, and since has held senior management positions in the international petroleum industry, coal mining in Canada, international gold and uranium mining, technical training, and asset integrity and HSSE consulting.

Ramganesh Srinivasan
Head of Human Resources

Mr. Srinivasan joined Dana Gas in 2009 and has led the HR function since 2015. He has over 15 years human resources experience in multinational and multicultural organisations. Prior to moving to the oil & gas industry, Mr. Srinivasan worked in various capacities in HR in the IT sector.

He is experienced in People Capability Maturity Model (PCMM), Six Sigma and Integrated Competency & Learning Management. Ram holds a MBA in HR and Systems from University of Madras, India. He also holds other professional certifications and credentials in the areas of Reward Management, Job Measurement and Rational Emotive Behavioral Technique.

Michael Pyszka
General Manager Egypt

Mr. Pyszka has been the General Manager of Dana Gas Egypt since December 2016; he initially joined the Company in 2015 as the Head of Production & Operations.

Mr. Pyszka has 30 years experience in the oil and gas industry with 20 years in senior management positions. A Petroleum Engineer by background, he worked as Asset Manager UK/Netherlands responsible for Petro Canada's North Sea operated production; he also spent an extensive period of time in a Libyan JV, at different levels of the organisation including Member of the Management Committee.

Shakir Shakir
Country Manager Iraq

Mr. Shakir is the Iraq Country Manager for Dana Gas and has held this position since 2007.

Previously, Mr. Shakir was the Iraq-wide General Development Specialist and Cognisant Technical Officer (CTO) for the United States Agency for International Development (USAID) Iraq Mission, from 2003 to 2007. From 2001 to 2003, he managed the United Nations Food and Agriculture Organisation (UNFAO) Iraqi Kurdistan Region's Rural Agricultural Rehabilitation Program.

Mr. Shakir is a member of the Iraqi Physics & Mathematics Society. He obtained a B.Sc. in Physics from the College of Science of the Al-Mustansiriyah University, Baghdad.

Oil prices moved from US$56.8/bbl to US$66.9/bbl averaging US$54.8/bbl over the year, suggesting that the OPEC initiative to reduce the overhang of inventories and balance supply in line with demand may be working.

Global energy macro

In 2017, the OPEC led production cut announced in November 2016 was fully implemented. Oil prices moved from US$56.8/bbl to US$66.9/bbl averaging US$54.8/bbl over the year, suggesting that the OPEC initiative to reduce the overhang of inventories and balance supply in line with demand may be working. OPEC has decided to extend this cut to the end of 2018 implying that it has yet to fully achieve its stated goals of balancing the market in a sustainable way and encouraging new investment into the sector.

Despite continued fears of a global gas glut, supply outages, winter weather and Chinese gas demand have tightened the market resulting in a sharp price rise in 2017 winter. Prices in New York surged to US$175/MMBtu on the back of a severe cold snap. NBP prices (European spot prices) surged to a daily high of c. US$8.8/MMBtu on 12 December due to closure of the Forties pipeline and an explosion at the critical Baumgarten gas hub. JKM front month (Asian LNG prices) exceeded c. US$11/MMBtu at end 2017 compared to US$9/MMBtu at the end of 2016.

Oil markets

The low oil price environment since 2014 has hurt investment into the E&P sector. Global E&P capex has fallen c. US$400 billion (down c.44%) according to Rystad Energy, whilst FIDs are reported to have fallen from 35 per year (2010-2014) to just 12 since 2015.

Low oil prices continue to support oil demand, which has remained robust, growing at 1.5 mmbbl/d p.a. in the last three years (above the last 50-year average of 1.3 mmbbl/d). The IEA forecasts that global oil demand will grow by 1.3 mmbbl/d in 2018, slightly 'down' on the 1.5 mmbbl/d of 2017.

In conclusion, 2017 global oil market has moved from supply overhang to market tightness supported by OPEC actions and strong demand.

Iraq: Despite war against ISIS, Iraq has performed strongly through 2017. Iraqi crude production has risen to 4.2 mmbbl/d. In contrast, KRI production was averaging c. 550 kbbl/d until September 2017. Following Baghdad's takeover of the Kirkuk area following the KRI independence referendum, KRI production has fallen to c. 300 kbbl/d levels owing to the loss of Kirkuk fields. Despite the political and financial strain faced by the KRG, KRI E&P companies continue to receive regular payments.

UAE: UAE's oil sector saw significant developments in 2017 with the restructuring of ADNOC's offshore business and the IPO of ADNOC's distribution arm. The UAE also successfully renewed contracts for the ADCO concession and Upper Zakum concession. In 2018 ADNOC expects to extend the ADMA concession.

In 2018, the market is expected to remain relatively balanced. The IEA forecasts that in the first half the global surplus could be 200 kb/d before reverting to a deficit of c. 200 kb/d in the second half, leaving 2018 as a whole showing a closely balanced market.

Gas markets

The global gas market saw the addition of c. 75 mtpa (c. 103 bcm p.a.) of new LNG capacity in US and Australia since 2015. The addition of capacity outpaced steady gas demand (gas demand grew at c. 60 bcm p.a. over the last five years) maintaining pressure on gas prices.

The tightness in the market in winter 2017 led to gas prices surging globally despite most Australian LNG being operational. Price rises followed demand surges across the globe as particularly cold weather struck in all regions; China also experienced considerable industrial demand, which pushed the country to implement demand management strategies.

The clear drivers of gas demand have been Asia and the Middle East and this trend is expected to continue in future. 2017 saw the implementation of ambitious gas plans in China, South Korea and India to reduce the health impact of smog. The Middle East has also seen growing interest in gas imports as demand grows and some countries try to reduce oil use in power generation. Saudi Arabia has now joined its regional peers (Kuwait, UAE and Bahrain) in considering an LNG import solution to its gas needs.

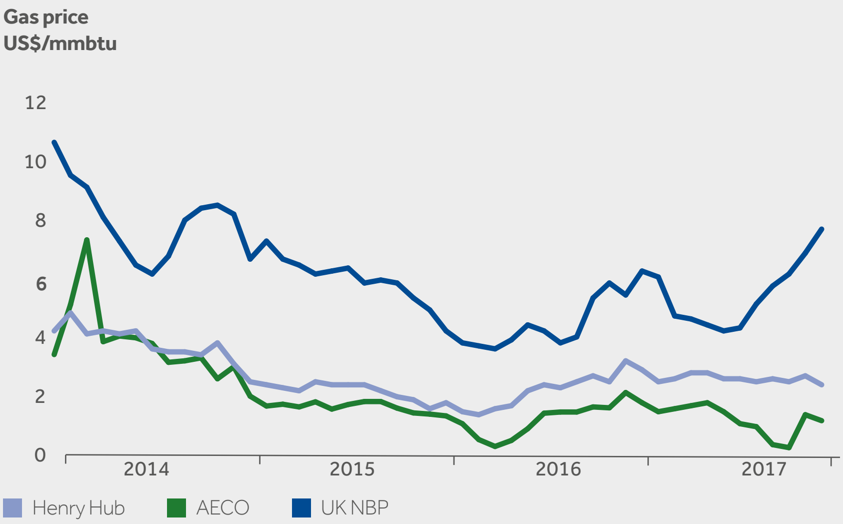
The future of gas demand is further strengthened by the increasing availability of technology such as FSRUs and small-scale LNG continue to reveal demand in a great variety of new countries such as Pakistan, Bangladesh and Cote d'Ivoire.

Egypt: Egypt has experienced a strong year in gas with the first gas from Zohr achieved in late 2017. According to EGAS, Egypt's gas production increased to c. 5.5 bcf/d at the end of 2017 with the addition of Zohr and the West Delta gas fields amongst others (up from 4.45 bcf/d at the end of 2016). Meanwhile EGAS expects gas demand for fiscal year of 2016/2017 to reach 5.86 bcf/d up from 5.38 bcf/d in fiscal year 2015/16. In 2017 Egypt imported c. 5.5 mt of LNG to meet demand; this was down 24% on 2016 volumes. In 2018, with the arrival of Zohr gas, Egypt's LNG import requirements are expected to fall and Egypt expects to become a net LNG exporter in late 2019/2020. The success of Zohr and other West Nile exploration has increased industry interest for exploration licences and investment towards Egypt. In addition to Egypt's upstream gas successes Egypt's gas market also saw further liberalisation through the unbundling of the gas market's midstream and downstream sectors. The law would allow the private sector to directly ship, transport, store, market and trade natural gas using the pipeline and network infrastructure.

UAE: Despite regional difference in GCC between Qatar and other countries gas flows through the Dolphin pipeline to the UAE were uninterrupted. In 2017, the UAE imported 1.7 mt of LNG; this was down 49% on 2016 volumes.

KRI: KRI gas projects are expected to make significant progress as the region's gas demand is increasing and KRI looks to add gas export revenues to bolster regional finances. In 2017, the KRG signed a series of agreements with Rosneft including a major oil prepayment, participation in five oil blocks and critically for participation in the construction of a 30 bcm gas export pipeline from KRI to Turkey. The timeline of the investment and the pipeline have still not been announced.

Gas price performance



Source: Bloomberg. Market data

Oil price performance

Source: Bloomberg. Market data

Egypt

Increased production and upside growth potential

Highlights

- 5th largest gas producer in-country
- Production averaged 39,500 boepd
- Started new drilling activity in Q4 2017
- Sold 3 cargos of condensate successfully as part of GPEA

Dana Gas, through its subsidiary Dana Gas Egypt, is 100% operator of 14 Development Leases onshore the Nile Delta. The Company also operates two Concession Areas with 100% equity interest, namely Block 1 onshore (North El Salhiya) and Block 6 offshore (North El Arish) and has a 50% non-operated interest in Block 3 onshore the Nile Delta (El Matariya).

Dana Gas Egypt saw its production average around the 39,500 barrels of oil equivalent per day (boepd), up 5% as compared to 37,600 boepd in 2016. This was achieved despite relatively low levels of capital expenditure as the Company sought to balance investments with collections. During the year the Company focused on completing the projects already under way, maintaining asset integrity and safe operations, and improving performance without carrying out any major drilling activities or new well tie-ins.

In June, Dana Gas temporarily shut-down the El Wastani gas plant for planned maintenance. The repair and maintenance work lasted for nine days and was carried out successfully, on time and on budget, with an

#5
largest gas producer in Egypt

5%
production increase in 2017

Gas production (mmscf/d)

2017	187
2016	177
2015	162

Condensate (bbl/d)

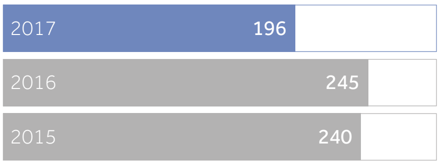
2017	6,020
2016	5,300
2015	4,040

outstanding HSSE record of no incidents and no environmental spills. Furthermore, in September it completed the South Faraskur Compression project, one of its most important in 2017. The project, tied to the El Wastani gas plant, has added 5 million standard cubic feet of gas (MMscf/d) to the Company's output.

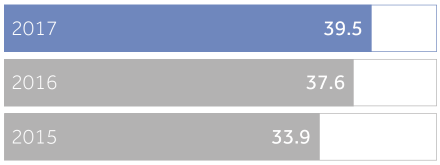
In keeping with the receipt of an industry payment mid-year the Company re-started its drilling campaign in November with a programme of up to four wells. Two of the wells were planned to be drilled in the Block 1 concession, namely Bahy-2 and ESAEN-1. The Bahy-2 well results were disappointing, for whilst gas was discovered, a production test established that the connected volumes were not commercial and the well had to be plugged and abandoned. Other planned follow-up wells in Block 1 were dropped, either as a result of the disappointing results of the Bahy-2 well or their lack of accessibility due to their location either close-to or under Lake Manzala. Instead additional, replacement well activities in the form of a major workover of an existing production well and the drilling of a new production well were planned. Cost for the total well campaign is US$11.2 million.

In January 2017, the Mocha-1 (Block 3) exploration well that was drilled by BP, reached the top of the targeted Oligocene at a depth of 5,375 metres and reached total depth at 5,940 metres, making it the deepest onshore Nile Delta well drilled. The well was drilled through the Messinian (conventional) to Oligocene (deep) targets and encountered hydrocarbons. The Messinian objective encountered wet gas, the primary Oligocene target did not encounter gas in commercial quantities and the well was plugged and abandoned. However, the well has helped de-risk the prospect and proven the presence of a working petroleum system

LPG Production (MTD)



Production (mboed)



for future drilling. The cost of the drilling was fully carried by our partner and operator BP as part of our joint-venture agreement.

Despite the disappointing results of the Mocha-1 well, Dana Gas Egypt still has significant upside growth potential. The Company is further advancing its sub-surface understanding of the potential of the Qantara play within its existing onshore acreage. The Qantara is of lower Miocene in age and lies above the Oligocene play tested by the Mocha-1 well, which showed the presence of a working petroleum system, the presence of reservoirs and the active generation of hydrocarbons. In the Block 6 El Arish offshore concession the Company was expecting to drill a shallow water exploration well in 2018 but the permits to drill was turned down by the Egyptian military. The Company is now working towards completing the well planning and obtaining a permit to drill a deepwater exploration well in 2019. This will make it the first offshore drilling activity in Dana Gas Egypt's history. This Block has the potential to be a game-changer for the Company if it successfully finds commercial quantities of gas.

During 2017, Dana Gas concluded three successful condensate cargo sales of approximately 450,000 barrels for a total of circa US$22 million in direct payments from international traders purchasing the product. This was one cargo more than originally planned as a result of debottlenecking arrangements that were put in place. Condensate export is a result of the Gas Production Enhancement Agreement that was put in place with the Egyptian Government in August 2014. The cash proceeds generated from the Government's share of the incremental condensate sales is being used to pay-down the outstanding receivables owed to the Company by the Egyptian Government.

The Company's 2P reserves fell slightly during the year, from 132 MMboe to 117 MMboe. This decrease in 2P reserves of 15 MMboe is equivalent to the volumes produced during the year as the activity plan that was executed, specifically the lack of workover and development well drilling activities did not replace production.

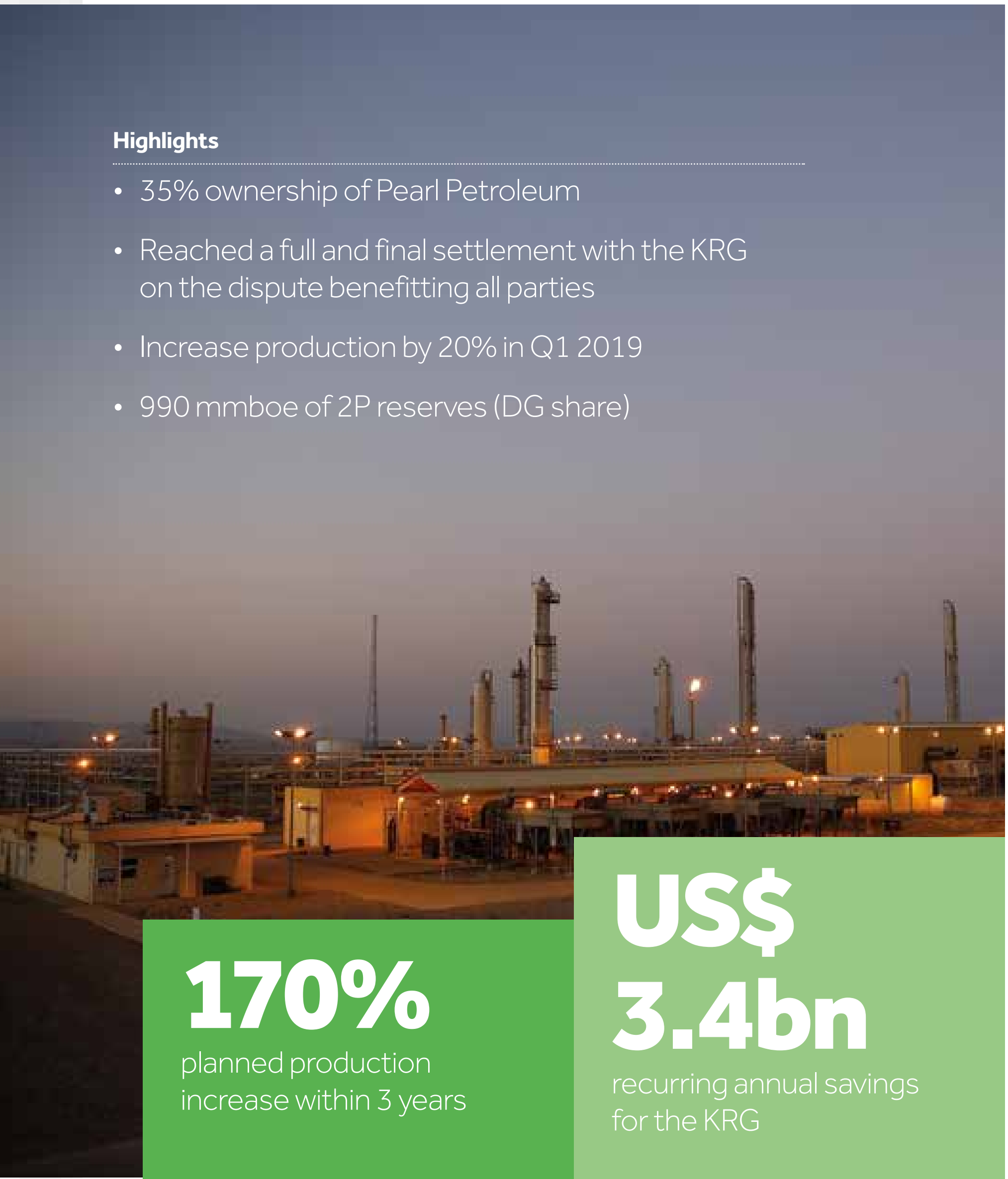
EBGDCO

In the Gulf of Suez, the Company holds a 26.4% interest in an LPG recover plant with capacity to extract up to 130,000 tonnes per annum of LPG from a gas stream of 150 MMscf/d. In 2017, the plant achieved an input of 150 MMscf/d of feed gas and 76,000 tonnes of propane and butane product. During the year, the plant availability and reliability was 99%. In 2018, a number of projects are planned to add an additional capacity of 20 MMscf/d to the current feedstock gas. The capital expenditure will be financed by the principal buyer and without shareholders' contribution.

The HSSE performance and results for 2017 were excellent, with Dana Gas closing out the year with a Total Recordable Incident Frequency (TRIF) of 0.26. There were two recordable minor injuries with contractor workers and the teams completed 85% of the safety observation closeout actions for the year against the target of 80%. One of the outstanding highlights of the year was the performance achieved during the June 2017 El Wastani Gas plant shutdown. Over a ten-day period, 1,300 contractor employees were on site, working 24-7, completing 100 major planned shutdown job activities.

Kurdistan Region of Iraq (KRI)

Settlement clears path for future growth



Highlights

- 35% ownership of Pearl Petroleum
- Reached a full and final settlement with the KRG on the dispute benefitting all parties
- Increase production by 20% in Q1 2019
- 990 mmboe of 2P reserves (DG share)

170%
planned production increase within 3 years

US$ 3.4bn
recurring annual savings for the KRG

In the Kurdistan Region of Iraq, Dana Gas holds a 35% interest in Pearl Petroleum Company Ltd. (PPCL) jointly with Crescent Petroleum (35%), OMV (10%), MOL (10%) and RWE (10%). PPCL holds the rights to appraise and develop the Khor Mor and Chemchemal Fields and market and sell the resultant petroleum products.

On the 30 August 2017, Dana Gas and Crescent Petroleum together with its partners in Pearl Petroleum (OMV, MOL and RWE) reached a settlement agreement with the Kurdistan Regional Government (KRG) and have mutually agreed to fully and finally settle all its differences amicably by terminating the Arbitration and related court proceedings, and releasing all remaining claims between the parties. The Consortium implemented a mechanism for settlement of the US$2.2 billion awarded by the Arbitration Tribunal. A cash payment of US$1 billion was made immediately of which the Consortium received US$600 million which was distributed to the shareholders as a dividend. An additional US$400 million was received and is dedicated for investment to develop the Khor Mor and Chemchemal fields and increase production. The settlement granted Pearl Petroleum the rights to explore and develop two additional blocks in Kurdistan (block 19 and block 20) and improved our deal terms whereby the share of future profits from the increase in production will be greater than the previous agreement to bring it more in line with that normally received by international oil companies in the region. Profit share with the KRG becomes relevant after Pearl Petroleum has recovered all its costs plus an uplift factor. Under the new arrangement, Pearl Petroleum's share will be 22% (from 10% previously). Furthermore, the length of the licenses was extended by 12 years and they now expire in 2049.

Gross Gas Production (mmscf/d)*

2017	299
2016	307
2015	311

Gross Condensate Production (bbl/d)*

2017	12.9
2016	13.3
2015	13.6

* Dana Gas interest is 35%.

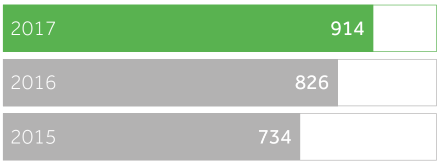
The current medium-term development plan envisages additional production of 500 MMscf/d and 20 kboed of condensate. Gas production is targeted to increase by 20% in Q1 2019 through debottlenecking the existing facilities and a further 170% by 2021 through the building of two entirely new 250 MMscf/d gas processing trains. This will allow Dana Gas and its partners to finally start developing these two world-class gas fields and begin to realise the long-term growth potential of our assets in the Kurdistan Region of Iraq and unlock billions of dollars of value.

An independent external reserves audit report by Gaffney Cline Associates (GCA) completed in April 2016 estimated that the Proved plus Probable (2P) gas and condensate reserves for the two fields to be 15 Tcf gas and 310 MM bbls condensate. Total Dana Gas share of the Khor Mor and Chemchemal 2P reserves is therefore 5.3 Tcf gas and 109 MMbbls condensate, equivalent to 990 MMboe. Based upon the reserves report data Dana Gas has evaluated the total geologically risked petroleum resources initially in-place of the Khor Mor and Chemchemcal Fields to be 75 Tscf (wet gas) and 7 billion barrels of oil. If the two fields were to be fully developed, PEARL would be able to potentially produce 5 to 6 bscf/d gas.

Development activities

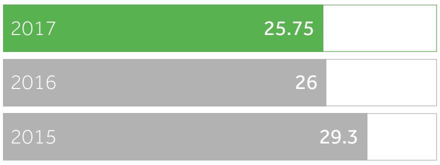
Upon the conclusion of the settlement agreement, the Consortium has developed a detailed Field Development Plan (FDP) for the Khor Mor field as well as an appraisal programme for Chemchemal and a debottlenecking facility and expansion scheme.

Gross LPG Production (MTD)*



* Dana Gas interest is 35%.

Net Production (mboed)*



* Dana Gas Sold 5% of its stake in Crescent Petroleum in 2016 to become 35%.

The work programme comprises the following:

- Fast-track debottlenecking of the existing facilities by a further 50 to 80 MMscf/d.
- Drilling of two appraisal wells in Chemchemal and up to four development and appraisal wells in Khor Mor.
- Work-overs on the six producing wells in Khor Mor.
- Building of two 250 MMscf/d trains sequentially to expand gas production from Khor Mor by a further 500 MMscf/d.

The FDP has been submitted to the Ministry of Natural Resources for their review and approval subject to the approval of the PEARL Board.

Production

The Khor Mor facilities are jointly operated by Dana Gas and Crescent Petroleum on behalf of PPCL. During 2017, daily sales gas production averaged 300 MMscf/d, gas condensate averaged a daily rate of 12,890 bbl/day, and LPG averaged a daily rate of 914 MT. Out of this Dana Gas's net production was 25,750 boepd, a 1% decline compared to 2016.

The gas produced and processed at Khor Mor plant is being supplied to the two power stations at Bazian and Erbil through a 180 kilometres pipeline. The plant successfully completed planned maintenance work in the third quarter. The gas supplied represents recurring annual savings for the Kurdistan Regional Government of US$3.4 billion in diesel costs.

The Khor Mor operations made significant improvements in HSSE performance in 2017. They completed the year with no lost time injuries and one medical aid treatment case. The last reported lost time injury was in September 2016. The total recordable injury frequency rate was 0.41 for the year. The key to the success was the total commitment from all employees at the plant towards accountability and safety leadership. There was a serious effort to engage the employees and contractors in all aspects of HSE improvements. This helped to further instil a positive and proactive safety culture within the operations.

The operators have been diligent to ensure that production has been unimpeded during the period of geopolitical uncertainty. The operator continues to monitor the situation very closely since the first priority are that its staff and then its assets remain safe. During the year, the operator sold its condensate product directly to the Government, which was transported predominantly via the Jambour pipeline in the first nine months of the year and then by trucks. Payments have been received regularly and within the allocated period. The operator has continued to make sales of LPG to local traders.

Total investment in the project so far is over US$1.2 billion for the Khor Mor and Chemchemal Fields. This represents one of the largest private sector investments in Iraq's oil and gas sector enabling 1,750 MW of affordable electricity supply for millions of people in the Kurdistan Region. It is also achieving over US$3.4 billion of recurring annual savings in fuel costs for the Kurdistan Regional Government (KRG) for power generation, calculated as being close to a total of US$16 billion in savings from the start of production in 2008. From an environmental perspective as well, the reduction of greenhouse gas emissions as a result of using cleaner natural gas at the power stations is valued at about US$300 million per year.

Final settlement between Pearl Petroleum and KRG

Settlement Highlights:

- Pearl Petroleum receive $1 billion from KRG
- US$600 million cash and US$400 million for investment
- Pearl to increase gas and condensate production at Khor Mor by 500 MMscf and 20 mbbl per day respectively – a 170% increase over current production levels – c. 2 years
- Balance of sums, $1,239 million, to be reclassified as outstanding cost recoverable by Pearl from future revenues generated
- Profit share allocated to Pearl from future revenues adjusted upwards to a level similar to overall profit levels normally offered to IOCs under KRG's PSC
- KRG to purchase 50% of the additional gas on agreed terms to boost gas supply for power plants in the KRI
- Awarded adjacent blocks 19 and 20 to Khor Mor concession and extension of the term of the contact until 2049

Settlement – in numbers

Total debt due from KRG

US$2.239 billion

Cash payment (including US$400 million for development)

US$1.000 billion

Petroleum recoverable

US$1.239 billion

Production increase (2-3 years)

500 MMscf/d gas
20,000 condensate

UAE

Outstanding safety record

Highlights

- First offshore gas production for Dana Gas
- Production commenced in February 2016

Dana Gas is the 100% operator of the Sharjah Western Offshore Concession. The Zora Field is located in the concession, which straddles the offshore waters of the Emirates of Sharjah and Ajman. Developed to supply gas to the Sharjah Government power station in Hamriyah, the Zora Field is delineated by three wells drilled in 1999 and 2002.

The Sharjah-2 well was re-entered and a dual lateral horizontal sidetrack was drilled in 2015 with a combined horizontal length of 9,000 feet. Production was brought on line through an unmanned platform installed in 24 metres of water. The well is connected by a 35-kilometre, 12-inch pipeline, to a purpose built onshore gas processing facility in the Hamriyah Free Zone capable of handling up to 40 MMscfd of gas along with associated condensate and water.

0

Reported injuries in two years of operations

600

mmscfd

capacity of the UAE gas project

Net Production (boed)

2017	1,650
2016	2,700

Production first started in February 2016 and has declined rapidly. The field delivered approximately 8 mmscf/d of sales gas to the Sharjah power station and produced 98 bbl/day of condensate in 2017 or an average of 1,650 boepd. Total 2017 production was 0.6 million boe. A detailed geo-technical study has been carried out which has identified reservoir deliverability as the primary reason for this underperformance. The Company's detailed modelling of the future performance of the field, based on production history and an improved understanding of the sub-surface, has led the Company to conclude that not all the reservoir is productive with today's technology. Therefore, the Company has taken a prudent approach and following the year-end independent reserves auditor's report has re-classified a portion of the 2P reserve to contingent resource. Year-end 2017 reported 2P reserves are 24.5 MMboe (2016 32.7 MMboe) representing a decline of 8.2 MMboe (25%) over the year. This has resulted in an impairment of US$34 million. The 1P reserve decreased by 50% and the 3P decreased by 6%. A proposal for a revised gas pricing structure has been submitted to the Sharjah Government, which will determine the economic viability of any final decision that needs to be made on further field development.
In the meantime the Company will focus on carrying on production for as long as possible through careful production optimisation.

UAE Gas Project

The UAE Gas Project was set up to process and transport 600 mmscf/d of imported gas from Iran in 2005 and still awaits commencement of gas deliveries. Dana Gas owns a 35% interest in Crescent Natural Gas Corporation Limited (CNGCL), the marketing organisation, and owns 100% of UGTC and SajGas, which respectively transport and process the gas. Dana Gas has maintained the facilities under preservation mode in readiness for receipt of the gas. UGTC owns 50% of a joint venture with Emarat which has developed the largest gas pipeline in the UAE (48-inch diameter), with a capacity of 1,000 mmscf/d to transport gas in Sharjah.

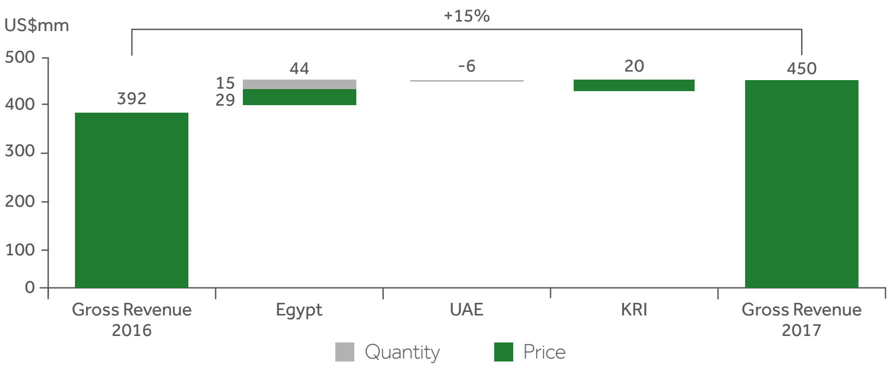
The UAE operations had an outstanding year regarding HSSE performance and results. There were no lost time injuries, no medical aid cases and no significant environmental spills. The Zora gas plant achieved two years with no reported injuries, which is a significant result considering the operation and maintenance teams went from a start-up to full-blown plant and offshore platform operations in a few months. At the end of 2017, the UAE operations went 1,637 days with no reported injuries.

2017 was an excellent year for the Group. We managed to turnaround from a loss of US$88 million in 2016 to a profit of US$83 million and ended the year with a robust balance sheet. Our cash balance at the end of 2017 stood at US$608 million as compared to US$302 million at end of 2016 and our receivables reduced by US$743 million to US$239 million. This was mainly a result of our landmark settlement with Kurdistan Regional Government of Iraq and stronger collections in Egypt.

Key financial metrics

	2017 (US$million)	2016 (US$million)	% Change
Gross revenue	**450**	**392**	**15**
Gross profit	**118**	**103**	**15**
Net (loss)/profit	**83**	**(88)**	**194**
EBITDA	**334**	**207**	**61**
Cash from operations	**465**	**82**	**467**

Gross revenue



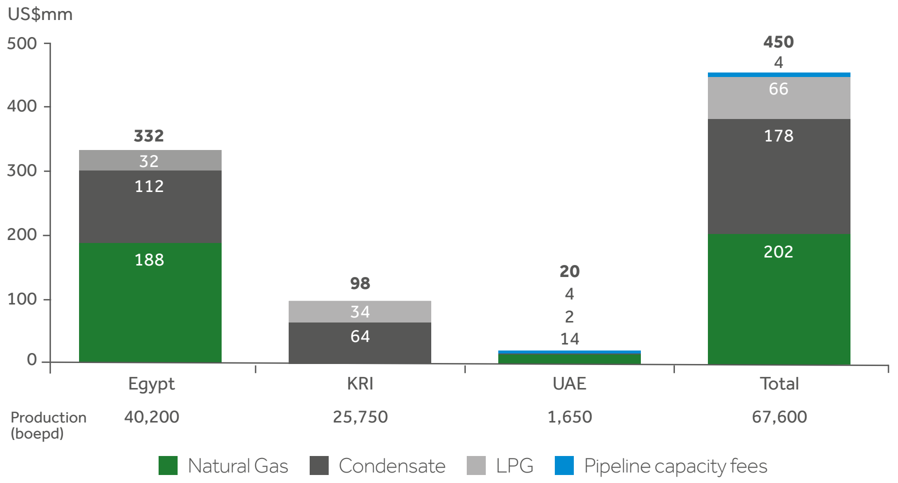
KRG settlement agreement

On 30 August 2017, Dana Gas, Crescent, Pearl Petroleum (the 'Consortium') and the Kurdistan Regional Government (KRG), (together the 'Parties') agreed to fully and finally settle all the differences amicably by terminating the Arbitration and relating court proceedings, and releasing all remaining claims between them, including the substantial damages asserted by the Consortium against the KRG; implementing a mechanism for settlement of US$2,239 million (amount outstanding as of 30 August 2017) and proceeding with immediate further development of the world-class resources for mutual benefit, as well as the benefit of the people of the Kurdistan Region of Iraq.

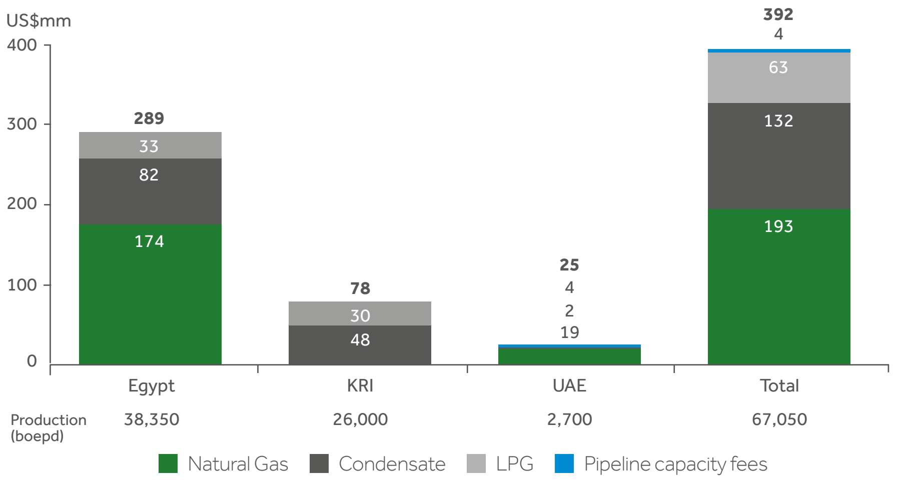
Following are the key highlights of the settlement:

- Pearl received US$1 billion in cash. US$600 million of this was immediately distributed to the shareholders of Pearl. Dana Gas is a 35% shareholder in Pearl and therefore received a dividend of US$210 million in September 2017.
- US$400 million is to be used to finance the Company's future field development plans. These funds are held in a Pearl bank account out of which Dana Gas share of US$140 million is classified as Funds held for development.
- The settlement also saw US$1.2 billion, which was the balance of receivables from the KRG, transferred to Petroleum cost, which will be recovered from revenues going forward.
- Profit share allocation was increased from 10% to 22% which is more in line with that normally received by international oil companies. Profit share becomes relevant after Pearl has recovered all of its cost plus an uplift factor.

2017 split gross revenue by product and geography



2016 split gross revenue by product and geography

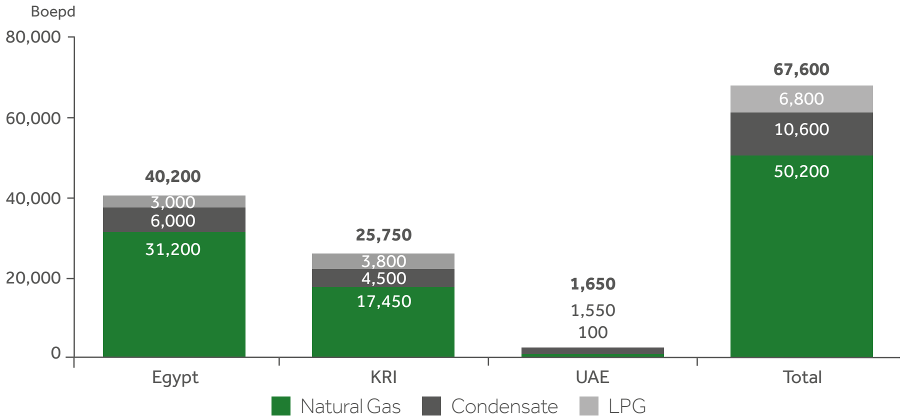


During the year, the Company earned gross revenue of US$450 million as compared to US$392 million in 2016, an increase of 15% reflecting increase in realised hydrocarbon prices in 2017. Realised prices were higher by 21% during the year and contributed US$49 million to the topline. Realised price averaged US$45/bbl for condensate and US$30/boe for LPG compared to US$36/bbl and US$28/boe, respectively, in 2016.

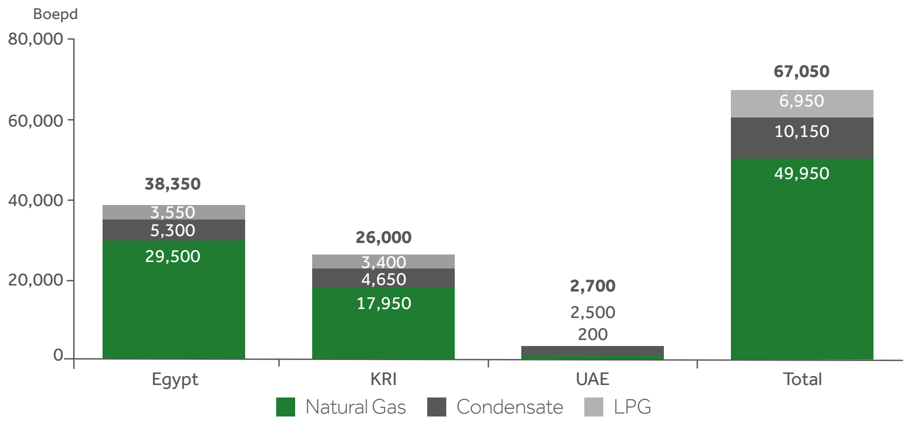
This increase in revenue was further augmented by production which increased from 67,050 boepd to 67,600 boepd, an increase of 1% compared to the corresponding period. The increase in production added US$9 million to the topline. The main contributing factor in production increase was Egypt, where the production was up 5% at 39,500 boepd as compared to 37,600 boepd during 2016. The higher production was a result of El Wastani plant good performance with minimum downtime. During the year El Wastani plant operated at full capacity and processed 190 MMscf/d of gas, 6,000 bbl/d of condensate and 200 tonne/d of LPG. The production increase from Egypt was partly offset by a decline in Zora production which was lower by 39% compared to the corresponding period.

Egypt contributed US$332 million to gross revenue as compared to US$289 million in 2016. Our share of revenue from the joint operations in Kurdistan Region of Iraq stood at US$98 million, higher by 26% as compared to US$78 million in 2016. The increase in Revenue both in Egypt and Kurdistan Region of Iraq was predominantly due to higher realised prices as discussed earlier.

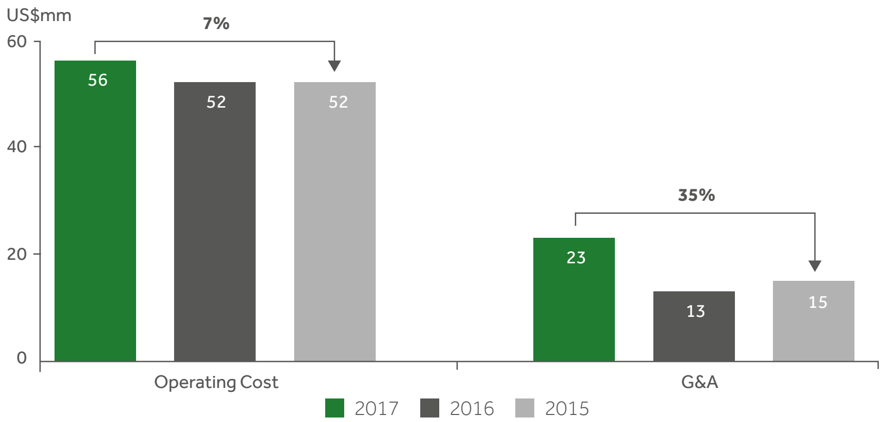
2017 split production by product and geography



2016 split production by product and geography



Operating & general & administration expenses



Gross profit

Gross profit for year stood at US$118 million, an increase of 15% over the previous year. This increase was mainly due to increased revenues resulting from higher realised hydrocarbon prices during 2017 and production increase in Egypt. However, the increase was partly offset by higher royalty charge which is linked to production in Egypt and increased Depletion, depreciation and amortisation (DD&A) charge. DD&A charge was higher by 11% primarily due to an increase in depletable costs in Kurdistan Region of Iraq, pursuant to the KRG Settlement Agreement, with US$1.25 billion of debt due to the Consortium (DG Share: US$439 million) having been converted to petroleum costs and classified as oil and gas interests. In addition, depletion in the Zora gas field was higher based on revised proved reserves reported in the 2017 year-end reserve report.

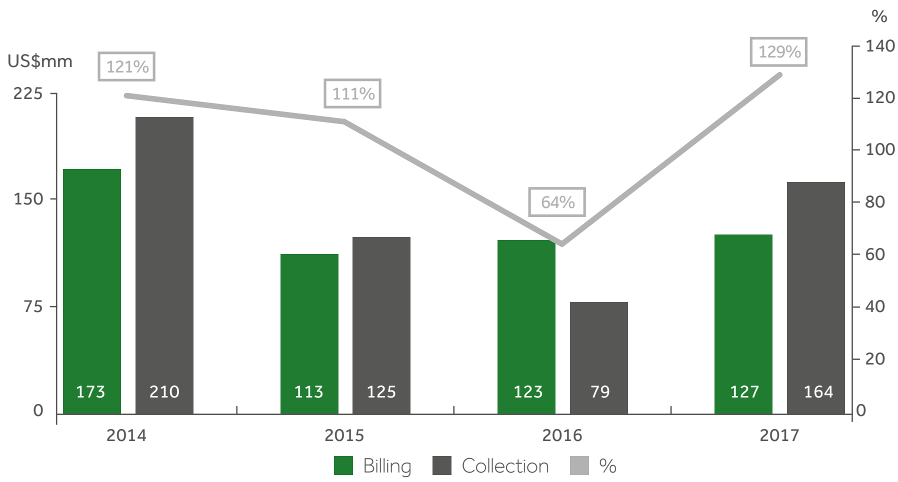
Operating & general & administration expenses

After achieving significant reductions in cost, year-on-year, since 2014 we maintained our Operating cost and G&A expenditure at the same level in 2017 as in the previous year. We are pleased to have kept a tight lid on the expenditure and remain focus on improving profitability.

Net profit

The Group reported a net profit of US$83 million a 194% turnaround from a net loss of US$88 million in 2016. In 2016 the main contributor to the net loss was a one-time interest reversal of US$66 million on overdue receivable due from KRG following the Third Partial Final Award. In 2017, apart from good production growth and higher realised prices; the Group's profitability also benefited from a very successful settlement with the KRG at end of August 2017.

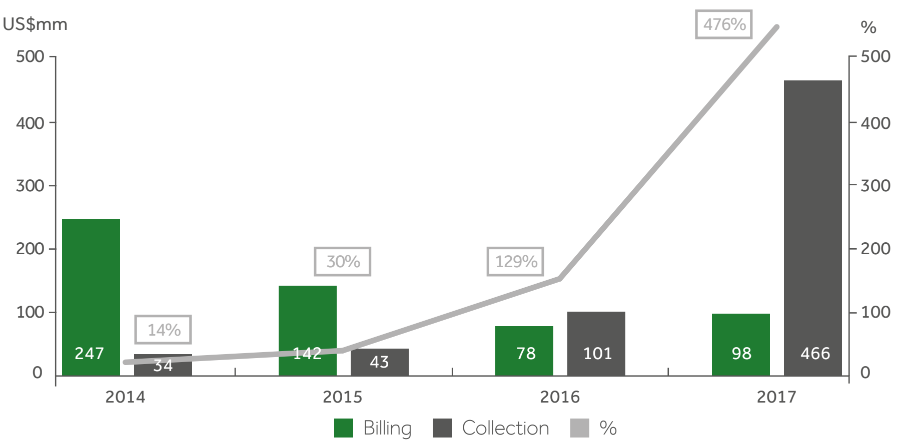
Trade receivables – Dana Gas Egypt



Total trade receivables

US$233m US$221m US$265m US$228m

Trade receivables – Pearl Petroleum



Total trade receivables

US$746m US$727m US$713m US$7m

Note: Percentage calculated as collections divided by net revenue.

In addition, finance costs decreased by US$26 million as a result of the settlement of certain loans during the year and no further devaluation in Egypt. The profit growth in 2017 was impacted by an impairment of US$34 million against Zora assets following receipt of the year-end independent reserve report.

Balance sheet

The balance sheet of the Group remained strong with total assets of US$3.8 billion as compared to liabilities of US$915 million. Consequently, equity attributable to shareholder's stood at US$2.86 billion translating into a book value per share of AED1.5 (2016: AED1.46).

Non-current assets

Non-current assets of the Group stood at US$2.69 billion as of 31 December 2017, as compared to US$2.38 billion in 2016, an increase of 13%. The increase was primarily due to an increase in property, plant and equipment from US$1.1 billion in 2016 to US$1.5 billion in 2017. This increase was mainly due to the transfer of US$1.25 billion balance debt due from KRG (DG Share: US$439 million), post cash settlement of US$1 billion, to petroleum cost pursuant to the KRG Settlement Agreement.

Current assets

Current assets of the Group stood at US$1.1 billion, a 21% decrease compared to US$1.4 billion as of 31 December 2016. The decrease was primarily due to a reduction in trade and other receivable as a result of the settlement agreement signed with the KRG which settled the trade receivable due from them and as part of this settlement paid cash of US$1 billion (DG Share: US$350 million) with the remaining amount being converted to petroleum cost and classified as 'Oil & Gas interest' under 'Property, plant & equipment'.

The decrease in current assets of the Group was partially offset by an increase in cash and cash equivalents from US$302 million as at 31 December 2016 to US$608 million as at 31 December 2017, an increase of 101%, as a result of the receipt by Dana Gas of its 35% share of US$600 million (US$210 million) out of the US$1 billion cash settlement under the KRG Settlement Agreement and the receipt of US$110 million from EGPC against outstanding receivables. In addition, of the US$1 billion received by Pearl under the KRG Settlement Agreement, US$400 million (Dana Gas Share: US$140 million) is classified as funds held for development. These funds are dedicated for investment exclusively for further development to substantially increase production in the Kurdistan Region of Iraq. Pearl is entitled to use any funds remaining of the US$400 million after the said development is complete or 29 February 2020, whichever occurs the earliest. If, to the reasonable satisfaction of the KRG, Pearl secures financing for all or part of the development, Pearl shall be entitled to use funds from the designated US$400 million (Dana Gas share: US$140 million) in the same amount as such financing for any purpose other than the development without restriction.

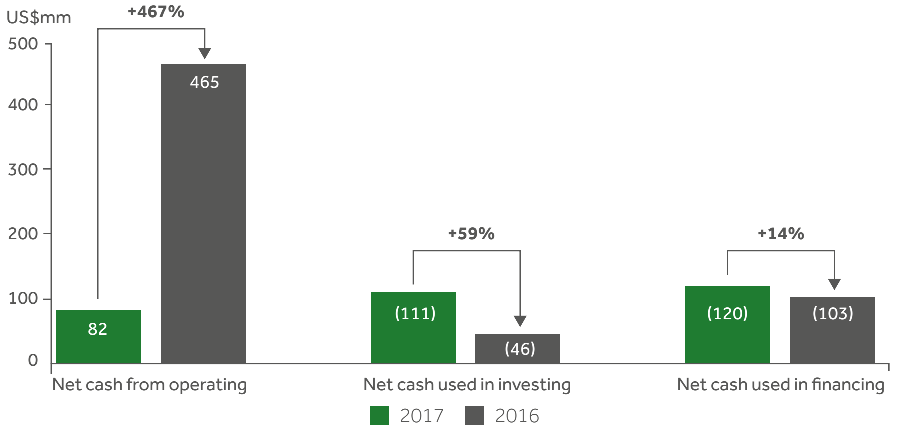
Liabilities

Total liabilities reduced from US$983 million in 2016 to US$915 million in 2017. The decrease in liability was primarily due to full settlement of the Zora Gas Field Project Financing on 2 May 2017, repayment of amount drawn under the Mashreq facility and reversal of provision for surplus over entitlement pursuant to the KRG Settlement Agreement.

Capital investment

The Group incurred an amount of US$47 million in capital expenditure during the year ended 31 December 2017. The entire amount was spent in Egypt on care and maintenance of CAPEX as well as on drilling during the second half of 2017. Following receipt of the industry payment of US$110 million from the Egyptian Government in June 2017, the Company recommenced its drilling programme and drilled one well and spudded another one in the fourth quarter of 2017.

Cash flow



The decline in 2017 was due to the fact that in 2016, Egypt embarked on a drilling programme which included drilling of five exploratory/appraisal and 11 development/recompletion wells together with various field development activities to grow production and reflected the Group's commitment made under the Gas Production Enhancement Agreement. Due to poor levels of collection in Egypt in 2016 (64% of invoiced amount), the drilling programme in 2017 was curtailed to balance investments against collections.

Trade receivables

The Group's trade receivables at the end of the year stood at US$239 million as compared to US$982 million in 2016. The decrease in receivable was mainly due to higher collections and reclassification of receivable balance in Kurdistan, pursuant to the Settlement Agreement and higher rate of collections in Egypt as compared to revenue billed. At year-end receivables in Egypt constitute 95% of the total and the balance mainly relating to receivables in Kurdistan.

The Group collected a total of US$639 million during the year with Egypt, KRI and UAE contribution US$164 million, US$466 million and US$16 million, respectively.

In Egypt, trade receivable balance reduced from US$265 million at end of 2016 to US$228 million in 2017. The Group collected US$164 million or 129% of net revenue invoiced for the year. Out of the total collections, US$113 million was received in US dollars, US$44 million in equivalent Egyptian pounds and US$7 million was offset against payables to Government-owned contractors.

During the year, the Group achieved an important milestone in Egypt with the international sale of condensate under the GPEA. Three condensate cargos were exported during the year and an additional cargo was exported in January 2018 with average cargo volumes of 150,000 barrels. Total proceeds from the three cargos exported during the year was US$22 million. Cash generated from the export of Government's share of the incremental condensate is being used to pay down the outstanding receivables owed to the Group by the Egyptian Government.

In Kurdistan, Dana Gas share of collections for the year 2017 stood at US$466 million giving a net realisation of 476% of revenue invoiced for the year. Pursuant to the Settlement Agreement with the KRG dated 30 August 2017, KRG settled the outstanding receivable amounting to US$1.98 billion (DG Share: US$695 million) as of 30 August 2017 by payment of US$1 billion (DG Share US$350 million) in cash with the residual receivable being converted to petroleum cost and classified as 'Oil & Gas interest' on the balance sheet.

At year-end, Dana Gas' 35% share of trade receivable stood at US$7 million as compared to US$713 million at the end of 2016. In Zora, collection during the year stood at US$16 million. At year end the trade receivable balance amounted to US$1 million (2016: US$2 million).

Cash flow

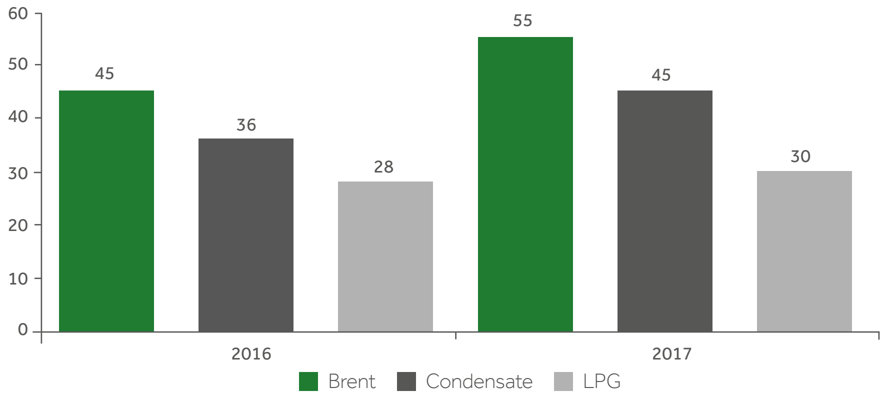
Cash flow from operations increased from US$82 million in 2016 to US$465 million in 2017. The increase in net cash flow from operating activities was primarily due to receipt of US$1 billion (DG Share: US$350 million) from the KRI towards partial settlement of outstanding receivables and US$110 million received from the Egyptian Government as part of a payment made by the Egyptian Government to international oil and gas companies operating in Egypt during the month of May and June 2017.

Net cash used in investing activities reduced from US$111 million in 2016 to US$46 million in 2017, a decrease of 59%. The decrease was mainly due to a lower level of capital expenditure in Egypt during the current year.

Net cash used in financing activities for the year 2017 was US$103 million, a 14% decrease compared to US$120 million in the corresponding period. During the year, cash for primarily used to fully settle the Zora Gas Field Project financing and Mashreq facility together with profit payments on Group's borrowings.

The Group ended the year with an healthy cash and bank balance of US$608 million, an increase of 108% compared to US$292 million at the end of 2016.

Average realised prices ($/boe)



Throughout 2017 there was a strong commitment and visible involvement by the Dana Gas leadership team and employees for an effective and proactive approach to safely protect employees and contractors, the communities we interact with, the environment and our assets from potential hazards and risks.

Highlights

- 2017 saw continued improvements in HSSE performance and results, along with risk reductions related to conditions, operations and processes. With focus on risk reduction to people, environment, assets and reputation.
- There was a significant decrease in employee injuries and uncontrolled releases, and continued improvement in quality of incident reporting and safety observations and close-outs.
- The Zora gas plant achieved two years of injury-free work in October 2017.
- There was excellent HSE performance of the 1,300 contractor employees involved with the planned nine day Maintenance Shutdown of the El Wastani Gas Plant in June 2017. There were no workplace injuries, no security incidents and no environmental mishaps.
- Increased improvement in the efficient and timely close out of actions from incident investigations, and applying lessons learned to take a more proactive approach towards incident prevention.
- The management leadership team increased the number of site visits in 2017 from 2016 and safety inspections in the year to the operations with constant messages of being proactive, no complacency, positive encouragement, continuous improvement and visible employee involvement.
- Progress was made on closing out the remaining actions for the safety critical elements and major accident hazards at the El Wastani Gas Plant during the planned Maintenance Shutdown in June 2017.
- ESIA studies for the Egypt drilling site locations were completed on time and meeting the Government requirements with approvals for activities given in a timely manner.
- The Khor Mor operations managers, supervisors and employees were extremely focused on HSE performance improvement throughout the year. At the end of 2017 year, the plant completed 485 days with no reported lost time injury.
- HSSE training and competency development programmes for employees and contractors across the Group were conducted. Primary focus for training was on Behaviour Based Safety, Permit to Work, Risk Assessment, Defensive Driving, Safety Leadership, HSE Auditing and Safety Observations.
- Further progress was made in 2017 on the development of a structured Asset Integrity System for the Egypt, Kurdistan and UAE operations. Critical asset integrity KPI targets were met for the year with a reduction of failures in piping and structures due to corrosion and erosion. The asset integrity programmes at each location are continuing to grow and evolve as fit-for-purpose actions to ensure the safety and integrity of plant meets acceptable risk standards.

Noteworthy HSSE achievements in 2017

The Dana Gas Corporate Office Sharjah in 2017 demonstrated full compliance through third-party audit to achieve the internationally recognised OHSAS 18001 standard for the Corporate Safety Management System and maintained its certification to the standard. Dana Gas Egypt in 2017 demonstrated compliance through third-party audit of their HSE management systems to the OHSAS 18001 and ISO 14001 standards. WASCO, the operator of the El Wastani assets successfully maintained their HSE Management System to OHSAS 18001 and ISO 14001 standards. Exterran, the Operation and Maintenance contractor for the Zora Gas Plant, in 2017 maintained their compliance for certification of their HSEQ Management system to OHSAS 18001, ISO 14001 and ISO 9001 standards. The Khor Mor operation in 2017 maintained their HSE management system to the defined standards based on OHSAS 18001.

2017 saw the successful safe operation of the Zora Gas plant, including the offshore and onshore facilities. Throughout the year, the focus was on safety performance for the operation and continuing with the 'goal zero' direction that was started in February of 2016. There were no major incidents or injuries in the second year of this asset's operation and the credit goes to effective management and leadership of the operations with safety and environment being the overriding factors for everyone.

Zora Offshore Emergency Drills. May 2017

Measuring HSSE performance

We remain committed to open reporting of incidents (major and minor) across the Company enabling us to learn and improve.

Key metric	2017	2016	2015	2014
Fatalities	0	0	0	0
Man-hours worked (million man-hours)	4.5	5.4	7.9	5.84
Recordable Injury Cases	5	10	7	11
Total recordable injury frequency	0.22	0.36	0.18	0.36
High potential incidents	6	9	14	7
Major road accidents	0	10	1	0
Kilometres Driven (million)	5.7	6.4	8.0	8.0

As part of the Dana Gas Egypt business development in 2017, there was continuation of drilling and construction activities. This included several months of drilling in Q1 and Q4 2017. Along with the drilling activities there was well tie-in and pipeline expansion activities and upgrades to the gas compression production equipment. Throughout these activities, the project and operation's teams focused on HSE performance and results, with no significant major injuries to personnel. In 2017, for Dana Gas Egypt and its partner WASCO, their attention was placed on Contractor safety management for improved safety and environmental management performance.

Challenges faced

Key challenges for Dana Gas in 2017 in HSSE included:

- Personal safety
- Risk identification, assessment and controls
- Competency of on-site supervision and employees of Contractor companies
- Consistent application of safety and environment procedures and practices
- Taking proactive actions to prevent near-misses and high potential incidents
- Improved incident investigation and close out of actions
- Ongoing challenges with Contractor safety and environmental management
- Continuous improvement of process safety and safety critical elements
- Concerns with community issues related to environmental and social impacts
- Ongoing security threats related to conflicts and acts of terrorism in regions of the operations

Group KPIs to measure HSSE performance

- Total recordable injury frequency
- Number of safety observations
- Number of safety observation close out actions

Achieved two years LTI free at Zora Gas Plant. November 2017

HSSE risks and measures for reducing risks

Throughout 2017 there continued to be emphasis on reduction of HSSE risks, achieving positive progress. These risks are built up from asset and Business Unit risk matrices which have become a key discussion item on the agenda of Senior Management and Board of Directors meetings held on a quarterly basis.

Risk theme	Controls in place in 2017 (highlights)
Developing a consistent safety culture across the Group	• Group Operating Risk Management System as the guideline for risk control. • Corporate and Business Unit Safety and Environmental Management System. • Visible Safety Leadership with increased site visits. • Improved incident reporting and root cause analysis. • Fit-for-purpose HSSE and Asset Integrity KPI's included on the Group Scorecard.
Consistency in assessment of HSSE risks across the Group	• High priority on risk identification with required mitigations. • Focus on Risk Assessments, Hazard Identification, ALARP and Permit to Work, Management of Change and Environmental Impact Assessments. • Competency in technical authorities and assurance. • Peer Reviews, Readiness Reviews, Lessons Learned. • Workshops held on Lessons Learned reports.
Project HSSE risk and assurance	• Compliance with the ORMS and the required HSE management systems and controls. • Contractor HSE Management. • Risk Assessments, Hazard Reviews and Peer Reviews. • Technical Authority for project oversight. • Alignment of Projects with HSSE requirements.
Ensuring identification and management of major accident hazards	• Process safety training, competency and technical assurance. • Major accident hazard reviews conducted for operating facilities. • Safety critical element lists developed for operating facilities. • High level investigations of all high potential incidents. • Emphasis on lessons learned and continuous improvements.
Consistency in HSSE standards of contractors	• Issue of the Operation's and Project requirements for HSSE standards and requirements. • Continued reduction of incidents related to driving and transportation performance and Journey Management procedures. • HSSE standards and procedures for drilling and construction contractors. • HSSE Competency requirements of Contractor staff.


Two years without LTI celebration at Zora gas plant


Dana Gas Senior Management Team visit Egypt Drilling site. December 2017


Conducting a Major Maintenance Shutdown in Egypt

During 2017, Dana Gas further strengthened its Risk Management and Corporate Governance processes across the Group. A joined-up corporate governance approach integrating risk management, internal audit, internal controls and insurance, enhances Dana Gas' ability to achieve its strategic and operational objectives, and helps protect our business, people and reputation.

Effective risk management, at all levels of the organisation, is integral to Dana Gas' achievement of its long-term goals. Our success as an organisation depends on our ability to identify, assess and successfully manage our risks. Our approach to risk management is designed to provide reasonable, but not absolute assurance that our assets are safeguarded and the risks facing the business are being mitigated.

The objective of Risk Management within Dana Gas is to improve performance and decision-making through timely identification, evaluation and management of key risks facing the organisation. The process operates on a mandatory basis across the Group and provides the Board with assurance that the major risks faced by the Group have been identified and are regularly assessed, and that wherever possible, there are controls in place to manage these risks. Risk assessment and evaluation are incorporated into key business processes, including strategy and business planning, investments appraisal, project management and HSSE processes.

Board and executive responsibility

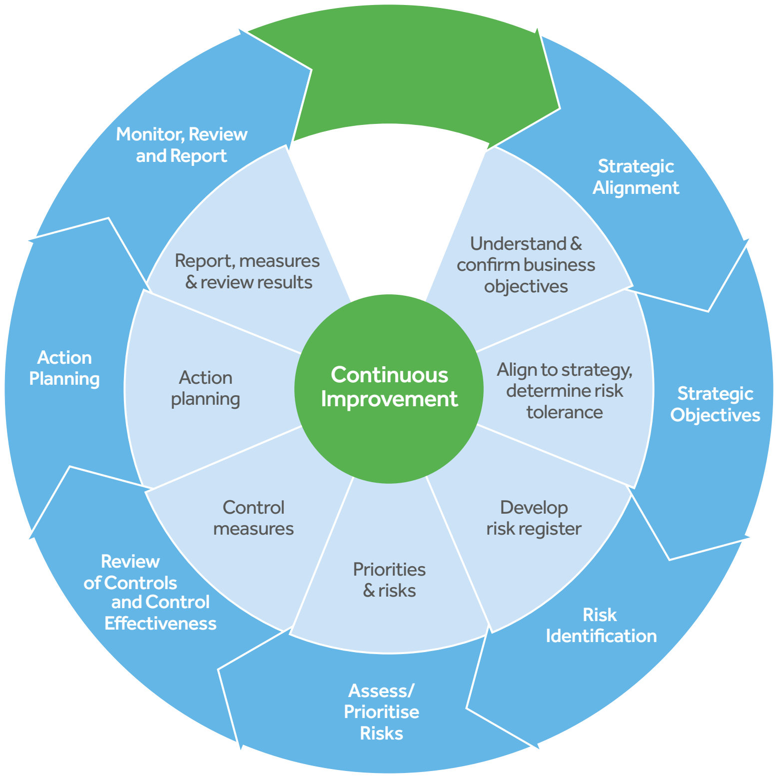
The Dana Gas Board is ultimately responsible for risk management, as part of its role in providing strategic oversight and stewardship of the Group. This includes evaluating risks to the delivery of the business and strategic plan and oversight on mitigating strategies. Key strategic risks and opportunities are reviewed quarterly by the Board and the Audit & Compliance Committee. Accountability for identifying and managing business risks lies with country General Managers and functional heads, with oversight by the Executive Committee. In each area of risk, Executive Directors are supported by functional heads and business unit or in-country management. Responsibility for managing risk is assigned to individual managers and each employee is personally responsible for managing risk within the remit of their role.

During 2017, the Executive Committee actively reviewed risks to the business plan and also brought greater focus on action planning to the Group risk register. The risk register identifies risks facing the Group, which are assessed at both an inherent and residual level against two scales: Likelihood and Impact (Financial & Non-Financial). This assessment enables the risk owners to determine the strength of existing controls and mitigating actions and to identify the additional treatment required to reduce the risk to the agreed tolerance level.

The quarterly risk and audit review sessions created a platform in which new risks and opportunities were discussed and risk-informed decisions about optimal courses of action were made. In addition to the short to medium-term risks associated with the delivery of our business plan, the Executive Committee and Board also considered the medium and long-term risks and opportunities faced by Dana Gas. Additional input is obtained by way of the World Economic Forum risk mapping approach whereby high level top-down global risks are integrated into the Dana Gas bottom-up risk assessments.

Over 2017 the Core Internal Controls (policies, standards, processes etc.) operating in Dana Gas have been progressively reviewed, updated and rolled out throughout the organisation. The key policies include the Code of Conduct, Anti-Money Laundering, Anti-Bribery & Corruption, Delegation of Authority Manual and Workplace Policy. Other Financial and Operational controls are reviewed with respect to the status of their development, communication, understanding, implementation and monitoring to ensure that they are effective in mitigating the risks.

Dana Gas Risk Management Process



RISK FACTORS AND UNCERTAINTIES

Dana Gas businesses in the MENA region are exposed to a number of risks and uncertainties, which could, either on their own or in combination with others, potentially have a material effect on the Group's strategy, business performance or reputation. In turn, these may impact shareholders' returns, including dividends or Dana Gas share price. The Group continues to define and develop processes for identifying and managing these risks. Some of the risks listed below may be outside the control of Dana Gas and the Group may also be affected by other risks and uncertainties besides those listed here. These risks are not arranged in any order.

Receivables and liquidity

Dana Gas' exposure to receivables and liquidity risk takes the form of a loss that would be recognised if counterparties (including sovereign entities) failed or were unable to meet their payment or performance obligations. These risks may arise in certain agreements in relation to amounts owed for physical product sales. Dana Gas is exposed to liquidity risks, including risks associated with refinancing borrowings as they mature and the risk that financial assets cannot readily be converted to cash without loss of value. The Group may be required to record asset impairment charges as a result of events beyond the Group's control.

Corporate and project funding

Dana Gas corporate and project funding requirements depend on a broad range of factors, including revenue and cash flow generated from our operations, restructuring and servicing the Sukuk, variations in the planned level of capital expenditure, success with new development leases, proceeds realised from any asset disposals, hydrocarbon prices and new agreements with Governments for production increases. Dana Gas' ability to access project finance on attractive terms may be constrained by its business performance and liquidity/receivables position. In addition, funding could be affected by any future asset write-off impacting the balance sheet and goodwill.

Asset performance and asset integrity

The Company's levels of production (and therefore revenues) are dependent on the continued operational performance of its producing assets. The Company's producing assets are subject to a number of operational issues including: reduced availability of those assets due to planned activities such as maintenance or shutdowns, unplanned outages, productivity and efficiency of wells, contamination of product and the performance of joint venture partners and contractors. In addition, asset integrity failure could lead to loss of containment of hydrocarbons, major accident hazards, marine incidents and wells out of control.

Geo-political and sovereign risk

The success of the Group depends in part upon understanding and managing the political, economic and market conditions in the diverse economies in the MENA region. Specific country risks that could have an effect on the Group's business and reputation include: volatility of national currencies; unexpected changes in local laws, regulations and standards; cancellation, variation or breach of contractual rights; aggressive re-interpretation of existing tax laws; regional and Governmental instability; Government intervention in license awards; increased royalty payments or taxes mandated by governments; expropriation of assets; and political obstacles to key project delivery.

HSSE

Exploration, Production, Transmission and Processing activities carry significant inherent risks relating to Health, Safety, Security and Environmental impacts. Major accidents and the failure to manage the associated risks could result in injury or loss of life, delay in completion of projects, cancellation of exploration, damage to the environment, or loss of certain facilities with an associated loss or deferment of production and revenues.

Access to new gas markets and the competitive environment:

Inability to adequately analyse, understand, respond and access new gas markets and the competitive environment, could result in a loss of market share and have an impact on the Group's financial position. This could be due to inability to deliver new gas projects in time and understand the competitive environment from new gas supplies coming into the UAE, Egypt, Kurdistan Region of Iraq and nearby markets. Dana Gas faces strong competition from both the National Oil Companies (NOCs), which control a substantial percentage of the world's reserves and the International Oil Companies (IOCs) that operate in the region. This competition could make securing access to acreage, reserves and gas markets more challenging.

Corporate reputation and license to operate:

The Group could be exposed to loss of corporate reputation due to failings in corporate governance, corporate social responsibility, HSSE, regulatory compliance, misreporting and/or restatement of results. This could impact future revenue, increased operating, capital or regulatory costs or destruction of shareholder value. Over the years the Group has implemented robust corporate governance, corporate conduct, asset integrity and HSSE systems and processes and will continue to enhance this in line with any changes in the regulatory and compliance frameworks in the countries it operates.

People resource and succession planning:

The Group's performance, operating results and future growth depend on its ability to attract, retain, motivate and organise people with the appropriate level of expertise and knowledge, as Dana Gas pursues its objectives. Dana Gas takes a systematic approach to resourcing to ensure it can meet its long-term human resource needs, operating short and long-term resourcing demand models to predict and manage the people requirements that underpin the Group's business plans. The Group aims to identify the best people through succession planning and talent management, coupled with effective recruitment.

Insurance

The transfer of risks to the insurance market may be affected and influenced by constraints on the availability of cover, market appetite, capacity, pricing and the decisions of regulatory authorities. Some of the major risks associated with the Group's activities cannot or may not be reasonably or economically insured. Dana Gas may incur significant losses from different types of risks that are not covered by insurance.

Other risks

Other risks that are regularly reviewed and assessed by the Dana Gas Executive Committee include: Gas Reserves, Commodity Prices, Stakeholder Management and Cyber Security.

Dana Gas has always aspired to the highest standards of corporate governance with emphasis on accountability, transparency and integrity. It has recognised that the adoption of best corporate governance practices is fundamental to building a robust business and ensuring a sound commercial reputation in the Middle East and internationally.

Background

At the Company's inception in 2005 the Dana Gas Board requested the IFC to set up the Company's Corporate Governance structures in line with international best practice. In 2015, Dana Gas commissioned 'Hawkamah', the Institute of Corporate Governance in the MENA region, to carry out an audit of the corporate governance practices with reference to the Ministerial Resolution No. 518/2009. The review confirmed that the Company's corporate governance practices remained top quartile and identified a number of improvements to ensure that the Company keeps to the highest possible standards of corporate governance. Over 2016-2017 actions plans for the key recommendations were developed and progressively implemented under the review of the Corporate Governance, Remuneration and Nominations Committee (CGR&NC), further strengthening the corporate governance processes.

Corporate governance processes during 2017

In May 2016 the Corporate Governance Code SCA 7/R.M. was published. This resulted in a review of a number of areas including the overall Corporate Governance Structure and the Terms of Reference of the Board Committees. These were updated and ratified by the CGR&NC and BOD in May 2017. Further development was carried out on the Terms of Reference for the Executive Committees to be in line with the BOD Committees and these were also ratified in May 2017.

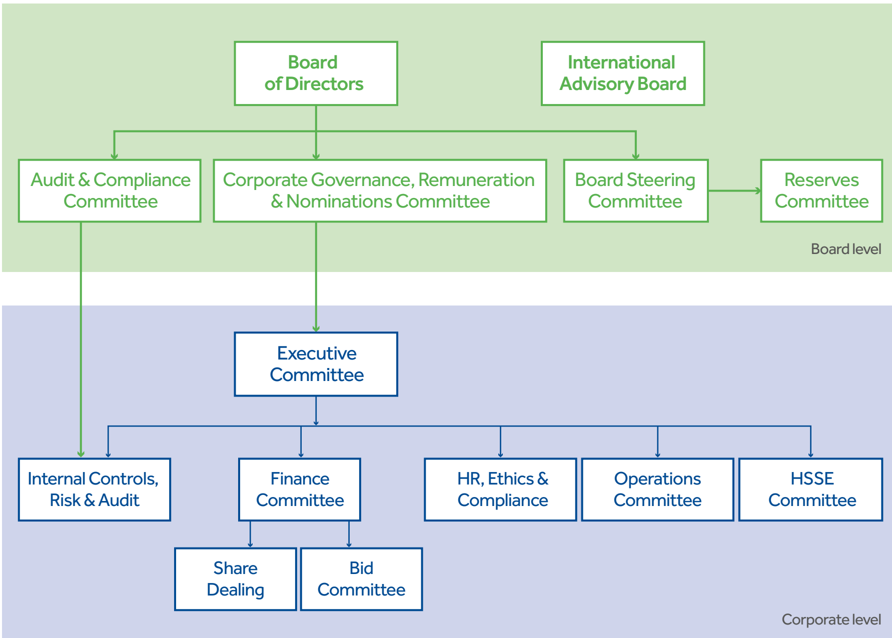
During 2017, a number of new controls were introduced in the business and awareness sessions were provided to the employees on the key terms and application of these controls. The controls included the Code of Conduct, Anti Bribery & Corruption Policy, Anti-money laundering policy and the Work Place Policy. In addition, the Delegation of Authority Manual was updated and relevant employees went through an awareness session on the key changes and application. A year-end exercise was conducted to seek employee confirmation on understanding and compliance with these five key controls and this process will be repeated for the other controls during 2018. The Share Dealing Code was rolled out in Q4 2017 and during Q1/Q2 2018 relevant employees will be provided with training and awareness sessions on the key sections of the Code.

In Q1/Q2 2017 a BOD assessment exercise was carried out (by an external consultant) and the recommendations were presented to the CGR&NC and BOD in May 2017.

The recommendations were accepted and a detailed action plan was developed and proposed to the BOD. The plan consists of 27 actions items that are derived from the eight key recommendations. Actions plans for the key recommendations will be progressively implemented during 2018, further strengthening the corporate governance processes.

High standards of corporate governance are a key contributor to the long-term success of the Company, creating trust and engagement between the Company and its stakeholders. Dana Gas will continue to review and develop its Governance framework in view of changes in the external environment, business performance and best practice frameworks.

Corporate Governance Committee structure (2017)



The Board of Directors and responsibilities

The Board is elected by the General Assembly every three years. The Board continues to be comprised of leading businessmen from the GCC countries, and others with considerable experience in the oil and gas business. The Chairman of the Board, Mr. Hamid Jafar was elected in 2015. Currently out of the 11 members of the Board, eight are Independent Directors and three Non-Executive Directors. Mrs. Fatima Obaid Al-Jaber is the only female member.

The responsibilities of the Board of Directors include: formulating and approving the Company's strategy and business plans; approval of the annual budget and the allocation of resources; setting investment priorities and approving business opportunities; overseeing the accuracy of the financial statements and financial reporting and the effectiveness of internal control; assessment of executive management performance; developing and adopting by-laws and regulations, policies and procedures in connection with the Company's administration, financial matters and personnel affairs; appointment and succession of senior executives.

The Board is independent of the management and is formed of Non-Executive and Independent Directors. At all times, at least one-third of the Directors are to be independent and a majority of Directors are to be non-executives with the technical and financial skills and experience to be of benefit to Dana Gas.

Board committees

The Board has three permanent committees, each having a written charter setting out the respective scope and responsibilities. These committees are:

- Audit & Compliance Committee;
- Corporate Governance, Remuneration & Nominations Committee; and
- Board Steering Committee.

In addition, in the light of the importance of the quantification of the Company's hydrocarbon resources the Board has appointed a Reserves Sub-Committee to the Board Steering Committee to provide it with specialist knowledge in this area.

The Audit & Compliance Committee (A&CC)

The principal duties of the A&CC are monitoring the integrity of the Company's financial statements and its reports (annual reports, semi-annual reports and quarterly reports) and reviewing the financial and accounting policies and procedures of the Company, as well as ensuring the independence of the Company's external auditor. It is also responsible for evaluating the integrity and quality of the Company's risk management and internal control policies and all the duties stated in the Ministerial Resolution 7/R.M. of 2016.

The Audit Committee members are:

- Mr. Varouj Nerguizian, Chairman, Independent Director
- Mr. Majid Jafar, Non-Executive Director
- Mr. Nasser Al-Nowais, Independent Director
- Mrs. Fatima Al-Jaber, Independent Director
- Mr. Said Arrata, Independent Director

The Committee convenes not less than once every three months and additionally whenever the need arises. The minutes of the Audit Committee meetings are signed by the Committee Chair and the Committee Secretary. The management provides the necessary information to the Audit Committee to enable it to discharge its functions.

Corporate Governance, Remuneration & Nominations Committee (CGR&NC)

The CGR&NC oversees compliance by the governing bodies of the Company; the General Assembly, the Board of Directors and executive management with established corporate governance standards. The Committee assists the Board in relation to the appointment of senior executives, appraisal of management performance, succession planning and remuneration policies. The Committee is responsible for nominations and election to the Board of Directors membership.

The CGR&NC members are:

- Mr. Abdullah Al-Majdouie (Chair), Independent Director
- Mr. Hani Hussain, Independent Director
- Mrs. Fatima Al-Jaber, Independent Director
- Mr. Rashid Al-Jarwan, Independent Director

All of the members of the Committee are Independent Directors. They possess considerable knowledge and expertise in corporate governance, nominations and remuneration, salaries and benefits policies.

The Board Steering Committee (BSC)

The principal role of the Board Steering Committee (BSC) is to provide support to, and facilitate the deliberations and decision-making process of, the Board of Directors through prior consideration of matters submitted for Board's consideration relating to strategy, business planning, budgets, new

2017 AGM (Annual General Assembly Meeting)

investment opportunities and making appropriate recommendations. The BSC recommends to the Board the business performance targets and annual corporate scorecard for each year and reviews progress against the scorecard as may be required from time to time. It also considers reports from the Reserves Committee on Company Reserves, Independent Engineering and Audit findings.

The BSC members are:

- Mr. Rashid Al-Jarwan (Chair), Independent Director
- Mr. Varouj Nerguizian, Independent Director
- Mr. Abdullah Al-Majdouie, Independent Director
- Mr. Said Arrata, Independent Director
- Mr. Majid Jafar, Non-Executive Director

The Reserves Sub-Committee (RSC)

The main purpose of the Reserves Committee (RSC) is to review and approve Company Reserves reports. The RSC will review the Company Reserves Reports, discuss these with management and the external reserves auditors and recommend their adoption where appropriate to the Board Steering Committee in accordance with the provisions of its Charter.

The RSC is comprised of:

- Mr. Said Arrata (Chair), Independent Director
- Mr. Hani Hussain, Independent Director
- Mr. Ziad Galadari, Independent Director
- Dr. Patrick Allman-Ward, Chief Executive Officer

Delegation of responsibilities to the Executive Management

The Board of Directors has delegated the Company's Executive Management Committee the following responsibilities:

- implement the strategies, plans and policies laid down by the Board of Directors for achieving Company's objectives;
- identify, pursue and submit studies and proposals relating to business development and new investment opportunities;
- submit to the Board of Directors periodic reports about the business of the Company, its financial position, internal control procedures and the measures taken to manage risks;
- provide the Board of Directors, on a timely basis, with the information and documents required for efficient conduct of Board meetings; and
- provide regulatory bodies (Ministry of Economy, Securities and Commodities Authority, Abu Dhabi Securities Exchange) with information, disclosure statements and documents as required in accordance with applicable laws, rules and regulations and Company regulations.

The Executive Management Committee consists of the following:

- Dr. Patrick Allman-Ward, Chief Executive Officer
- Mr. Chris Hearne, Chief Financial Officer
- Mr. Duncan Maclean, Legal & Commercial Director
- Ms. Iman Hill, Technical Director & GM UAE
- Mr. Bruce Basaraba, Head of HSSE
- Mr. Ramganesh Srinivasan, Head of Human Resources
- Mr. Michael Pyszka, GM Egypt

Company's external auditors

The Company's external auditors, Ernst & Young, is one of the top tier international audit firms with a network of 230,000 employees in more than 150 countries. It is an independent professional firm, which has been in the region since 1923 and has evolved since that time to become one of the big four audit firms in the world. The firm's areas of work include oil and gas, banks, financial institutions, technology and commerce, health care, infrastructure, industrial, leisure in addition to consumer products and allied sectors.

Internal control

a) Internal Controls & Risk Management

Dana Gas has in place a fully integrated internal control system that links corporate governance rules, risk management, internal controls and assurance processes.

The Internal Controls & Risk Management department is responsible for identifying and assessing the risks facing the Company and assisting management in developing and implementing an effective internal controls system which address the key risks. The Company's internal controls are policies, processes and standards and a risk mitigation action plan designed to achieve effective and efficient operations, reliable financial reports and to comply with relevant laws and regulations. There is a continuous verification process in place to ensure that the Company and its staff comply with applicable laws and regulations, and resolutions that govern the Company's operations as well as internal procedures and policies.

The Corporate Internal Controls & Risk Manager is responsible for overseeing the Internal Audit and the Internal Controls functions with a direct reporting line to the Audit Committee and is ultimately accountable to the Board. He is primarily and directly responsible for auditing the Company's internal controls to confirm that they are adequate for their intended purpose, for identifying and reviewing any perceived shortfalls or weaknesses in the internal controls, and for testing compliance with the internal control framework. He is authorised to take the necessary action to implement the directives of the Board of Directors, and to report violations of the Company's regulations, policies and Board's directives to the Board of Directors and the Audit Committee identified during the audit process.


2017 AGM

The Corporate Internal Controls & Risk Manager submits an annual risk-based audit plan to the Board of Directors for approval, which includes a comprehensive assessment of the risks facing the Company. The annual plan is designed to prioritise potential areas of risk with a view to allocating the Group's resources to those areas of most strategic importance to the Company, to ensure that all material functions and activities of the Company (and its subsidiaries) are periodically audited and reviewed, and to support the Company's overall risk assessment procedures.

The internal audit reports are shared with the Company's external auditors when auditing the Company's annual financial statements.

b) Whistleblowing mechanism
The Company has established a whistleblowing mechanism whereby employees can anonymously make complaints pertaining to mal-administration, fraud or corruption. The Compliance Officer leads the Business Ethics Committee which is responsible for addressing complaints made through this procedure. Any financial related complaints will be addressed by the Internal Controls & Risk Manager and promptly communicated to the Audit & Compliance Committee.

c) The Corporate Internal Controls & Risk Manager
Mr. Bob Sehmi was appointed Corporate Internal Controls & Risk Manager in July 2015. He has over thirty (30) years of experience working with multinational organisations listed in the London, New York and Frankfurt Stock exchanges and the Abu Dhabi Securities Exchange. Mr. Sehmi is a Fellow of the Chartered Institute of Management Accountants (FCMA), Member of the Institute of Risk Management (MIRM), MBA, Member of the Institution of Civil Engineers (MICE) and Member of the Institution of Structural Engineers (MIStructE).

d) Compliance Officer
Mr. Duncan Maclean was appointed as Compliance Officer by Board Resolution No. 27/2016 dated 22 June 2016, to carry on the duties and functions prescribed in article 51 of the SCA Resolution No 7/R.M/2016 concerning Corporate Discipline and Governance. Mr. Maclean is an Australian qualified lawyer, is admitted as a Barrister and Solicitor of the High Court of Australia, Federal Court of Australia, the Supreme Courts of the Northern Territory, South Australia and Western Australia. He holds of a Bachelor Degree in Law (LLB) and a Masters Degree in Commercial Law (MCommLaw) and has over 25 years of experience in corporate, commercial and oil and gas legal practice in international law firms. He is also the Legal and Commercial Director and Company Secretary.

Company's social responsibility

In 2017 Dana Gas published its first Sustainability Report (2016) prepared in accordance with the GRI Standards. The report details the Company's account of actions, progress and initiatives related to its economic, environment and social performance.

Dana Gas' corporate social responsibility activities cover the countries where it operates. The Company's objective has been to play a prominent role in supporting local communities situated within its areas of operation. Dana Gas has implemented a number of projects and programmes covering education, health and social activities in accordance with its annual corporate social responsibility plan approved by the Board of Directors.


IAB & Board retreat meeting

Our success derives from the competence and dedication of one of our core assets, our Employees.

Internship Training

Talent attraction and retention

Our people strategies are aligned with our business, they strengthen and support the successful delivery of our objectives and are a key aspect in enhancing Shareholder value.

Dana Gas is able to continue its success in building and maintaining capability at all levels, by identifying, attracting and retaining skilled people. It is part of our evolving culture to value expertise in a way that will generate the necessary proficiency that we require across the Group now and for the future.

Diversity and equality

Dana Gas strives to create a collaborative workplace from various backgrounds and experiences. We respect and value everyone, and embrace diversity which brings understanding and connection to the communities in which we operate.

We are committed to equal opportunities and do not condone discrimination of any kind. Our workplace policies and practices provide an inclusive environment where everyone can contribute and develop freely and equitably. These values have helped us to build and maintain the diverse and robust community that is Dana Gas.

Development

Developing our people and helping them to reach their full potential are key elements in delivering our people strategy and remains as a key focus area. We recognise that the success of our strategy depends on successful delivery by our Employees, and we therefore provide learning and development opportunities for employees at all levels. In 2017 we spent 423 person days in learning and development activities across all disciplines in the form of external, internal and on-the-job learning.

As a part of our social commitment towards building a capable workforce for the future, Dana Gas has engaged with academic institutions to provide internship and learning opportunities to university students. In 2017 both in the UAE and in Egypt, Dana Gas has provided internship and learning opportunities across multiple disciplines to a total of 15 students out which 13 were female students.

Performance and rewards

Dana Gas understands that motivating employees is essential and that effective teamwork drives delivery and progress. Dana Gas has a robust performance management programme that firstly defines the criteria by which business success is measured. Goals are then set accordingly, performance reviewed periodically, employees assessed for their delivery against their goals and recognised for their contributions.

The reward philosophy of Dana Gas is performance-driven across all its levels and is designed to deliver both a solid employee value proposition as well as to support the corporate strategy effectively. This helps the Company in maintaining an able workforce that is motivated and is capable of delivering the Company's business objectives.

Commitment, employee engagement, communication and feedback

We are focused on building a lean and efficient organisation with clear responsibilities and accountabilities enabling empowerment, faster decision-making while enhancing control and delivery.

Dana Gas has a strong shared focus on maintaining a healthy and safe working environment. Dana Gas encourages all Employees to report any incidents that affect their health and safety, with the goal of causing no accidents nor harm to people and minimising any adverse effect on the environment.

Dana Gas believes in open dialogue and values employees' feedback and suggestions. Our regular staff Town Hall sessions serve in communicating our operational as well as financial results and in keeping everyone informed about changes and progress that affect them as well as the Group.

Headcount, net to the Company's interest as of 31 December 2017

The table below sets out the number of employees and contractors employed by Dana Gas through its subsidiaries and joint ventures as of 31 December 2017. The vast majority of these employees and contractors are based in Sharjah, Egypt and the Kurdistan Region of Iraq.

	Employees	Contractors
Dana Gas Head Office	35	4
Dana Gas UAE Units (Saj, UGTC & Zora)	11	3
DG Kurdistan Region of Iraq	3	1
DG Egypt	91	26
Wasco (Egypt)	5	0
EBGDCo (Egypt)	0	0
Credan (Kurdistan Region of Iraq)	0	0
TOTAL	**145**	**34**

The table below sets out the number of employees as of 31 December 2017 employed by joint ventures in which Dana Gas has an interest.

	Ownership interest held by Dana Gas	JV employees (net to Dana Gas's interest)	JV Contractors (net to Dana Gas's interest)
Wasco (Egypt)	100 per cent	412	330
EBGDCo (Egypt)	26.4 per cent	16	20
Credan (Kurdistan Region of Iraq)	35 per cent	176	0
TOTAL		**605**	**350**

Long Service Awards

"As of December 2017, we employed staff from 16 countries."

"As of December 2017, nearly 17.2% of our overall full time workforce were female employees."

From its incorporation in 2005 Dana Gas has made Corporate Social Responsibility and Sustainable Development part of its Corporate Values. Ensuring that we do not degrade the environment and facilitate a better quality of life for those communities in which we operate is a core commitment to the way in which we operate.

Providing sustainable support is not only the right thing to do from a moral perspective, it is the right thing to do in so far as it helps to ensure that our activities make a long-lasting impact for the better on the communities around us and thereby ensure the Company's continued license to operate.

Dana Gas' business activities span a number of countries, including the UAE, Iraq and United Arab Emirates. The annual CSR objective is to continue in an active role in the development and support of local communities in each of these countries.

Dana Gas in 2017 continued on its sustainability journey by contributing to the development of communities in the regions in which it operates. Dana Gas recognises that Corporate Social Responsibility (CSR) is about managing the interactions between business and people, and the environment and communities, by directly contributing to economic and social development while protecting natural resources and respecting the rights of each individual.

- The Company is focused on delivering sustainable long-term value to its stakeholders, while making a positive contribution to the communities with which it engages.
- Dana Gas fully understands its role in fostering an environment that embeds a CSR ethic into its activities and business practices.
- Dana Gas has undertaken this effort since its establishment, and prides itself on continuing to pursue this path despite the difficult financial circumstances the petroleum sector as a whole and the Company has experienced.

Sustainability objective

The priority in 2017 is our commitment to managing the impacts of our businesses in the region and to share in a prosperous future with shareholders, governments, communities, employees and industry partners alike.

The meaning of Corporate Social Responsibility for Dana Gas is:

- Valuing tolerance, diversity, equality and learning.
- Growing talent in the organisation and employee motivation.
- Nurturing a collaborative workplace where there is respect for cultural diversity.
- Focus on talent development and competency assurance.
- Continuous emphasis on employee performance management and evaluation.
- Continuous effort towards operational excellence.
- Encouraging open communication, employee engagement and timely feedback.
- Create a work environment that invites everyone's 'right to question'.
- Mutual sharing of ideas and opinions is expected.
- Promoting the balance between work and family.
- Sharing the value of everyone working safely and respecting the environment.

CSR focus

- Improved healthcare standards and education development for individuals, particularly in rural areas where the Company's concessions are located.
- The Company seeks to continue offering as much assistance as possible and thereby endeavouring to make a positive and lasting contribution to society.
- We believe that the ideal way to achieve our goal is by supporting communities with the best sustainable development tools we have at our disposal.

Corporate Social Responsibility Commitment

"Dana Gas continues to be fully committed to its corporate social responsibility efforts."

Objectives of stakeholder engagement for Dana Gas in 2017

1. **Identify** all those affected by or interested in our Operations and Projects to ensure they are included in the engagement process.
2. **Understand** the views of the key stakeholders and ensure they adequately understand the positive and negative impacts of the activities.
3. **Inform** the public and partners about our activities, being transparent, honest and open.
4. **Relationships and trust building** through supporting communications, dialogue and engagement with stakeholders, acting with transparency.
5. **Engage** with stakeholders including vulnerable and marginalised groups by having an inclusive approach to consultation and participation.
6. **Manage expectations and concerns** by providing a method for stakeholders to engage with us about their concerns and expectations.
7. **Compliance** with local and national Government regulations and international best practices as defined by recognised standards and associations.

AMAR Signing Ceremony

Stakeholder engagement activities for Dana Gas in 2017

1. Conduct EIA studies for benefit of public and Company.
2. Public consultation meetings with communities.
3. Health and Safety training programmes for communities.
4. Meet the neighbours initiatives.
5. Gas plant open house and site visits.
6. Corporate presentations to local community schools and universities.
7. Membership in joint business groups and associations.
8. Conducting emergency response drills and training with public authorities.
9. Joint mutual aid programmes.
10. Sponsorships, donations and charity initiatives.
11. Stakeholder meetings and forums.
12. Formal and informal grievance procedure for raising issues and complaints.
13. Mandatory reporting related to operations and project impacts and actions.
14. Whistleblower policy and process.

Corporate Social Responsibility involvement in 2017

- Provided support for higher education in the UAE to develop the youth in the country.
- In Egypt and KRI we continued to support the development of local primary healthcare and improved local education services.
- In Egypt we continued to promote sustainable business development and partnering with local businesses to further enhance growth and employment opportunities.
- In Egypt and KRI we supported orphaned children programmes and provided materials and resources for community schools.
- In the KRI continued support was given for local infrastructure development including access to clean potable water supplies, provision of electricity, bus transportation for school children and maintaining local access roads for communities where we operate.

Social and economic impact[1]

Dana Gas makes long-term economic impact and generates significant direct benefits to the KRI region. Dana Gas provides free natural gas from its initial production facilities thereby supporting the generation of electricity at internationally and nationally competitive rates. It is estimated that through the Erbil and Chemchemal power plants that it supplies with free gas, the annual GDP contribution reaches between US$6.2-US$15.5 billion. Gas fired power generation today is reliable and electricity suppled to the region achieves an average of 22 hours per day compared to eight hours in 2006, in an area that is fundamentally short of power. This has resulted in an estimated US$9-US$21 billion in avoided business costs.

This directly impacts the local community by securing low-cost energy supply to 4 million Iraqis and saving the regional government US$3.4 billion per annum in gas-for-diesel substitution. Dana Gas has also contributed to the creation of 40,000 jobs as a result of the direct, indirect or induced impacts of the Dana Gas and Crescent Petroleum operations thereby providing employment

1. PWC 'Assessment of Societal Benefits', Dana Gas and Crescent Petroleum Gas Projects in Kurdistan, December 2014.

Dana Gas honoured for their sponsorship of the Amal Camp

for 18 percent of the KRI population. Since project inception in 2008, the total avoided greenhouse gas emissions amounts to US$1.43 billion due to the switch from diesel to gas supplied power generation.

Dana Gas Head Office Sharjah 2017 CSR activities

Dana Gas Head Office Sharjah in 2017 was involved in the following activities, amongst others, in order to promote corporate social responsibility:

- Dana Gas currently sponsors the Dana Gas Chemical Engineering Chair at the American University of Sharjah (AUS), and intends to continue this sponsorship in 2018.
- For several years Dana Gas and AUS have worked closely to develop research in the field of oil and gas. In 2017 one project was a student engineering design project for the environmentally-acceptable options for the treatment and reuse of produced water from the Zora Gas plant operations.
- Provide an annual donation to the AMAR International Charitable Foundation who operate the Khanke Camp for Internally Displaced People (IDP) on the outskirts of Dohuk in northern Kurdistan. The Khanke Camp includes a medical and health care center as well as education facilities for children and adults. Dana Gas provides charitable support for the operation and maintenance of the health care and education facilities at the Khanke Camp. The camp has 18,000 mostly Yazidi residents and the medical clinic is a vital part of the infrastructure. The education facilities are critical for preparing the children and young adults for learning life skills and job skills for better employment opportunities.
- Provide annual sponsorship to the 'The Centre for Economic Growth (CEG)' Insead UAE, a collaboration between the region's private sector and a leading global business school, to provide original research and projects on the key economic topics impacting the region.
- Provide annual sponsorship for the Sharjah-based Amal Camp, which was first initiated in 1986. The Amal Camp as of 2017 is 31 years in operation and is well-known for and respected as a place where disabled people from the region are welcomed with respect and dignity. The disabled people receive specialised training, share experiences, develop new friendships and gain in confidence through benefiting from this opportunity in Sharjah.
- In 2017 Dana Gas Head Office Sharjah supported eight interns as part of the planned and structured internship programme. Dana Gas has formed strong relations with two Sharjah education institutes, American University of Sharjah and the Higher College of Technology Sharjah, for the internship programme targeted at third and fourth year students.
- As was started in 2015, Dana Gas continued in 2016 and 2017 to further build the relationships with the neighbouring industries located within the border areas of the Zora Gas Plant in the Hamriyah Free Zone. This has proved to be a positive initiative for sharing or resources related to emergency response, security and for operational issues.

Dana Gas Egypt 2017 CSR activities

Dana Gas has been involved with corporate social responsibility activities in Egypt since the day the business commenced there. Over the years the CSR focus has been on support for the local communities in each of the Governorates where the Company has its operations. From 2015 to 2017 there has been a significant growth in exploration and production activity in each of the three Governorates, thus necessitating the expanded approach for fit-for-purpose CSR activities. 2017 saw a strategic focus on CSR activities related to health care, medical assistance, education support and small business assistance. The 2017 CSR activities that were initiated by Dana gas Egypt in each of the three Governorates include the following:

- Held three Cooperation Meetings with the each Governor in Damietta, Dakahlia and Sharkia, with the ongoing objective to further maintain the good working relations with them and to deliver the message that Dana Gas continues to care about their communities and their needs and is willing to support them.
- Conducted the annual (2017) Field Assessment to each of the Dana Gas Egypt CSR Projects which were implemented in previous years in the three Governorates (Damietta, Dakahlia and Sharkia). The assessment of projects included all the health units and hospitals and schools which received prior CSR support, including:
  - Health Units: San El Hagar Qeblia, San El Hagar Baharia, Om Ratiba, Kafr El Arab, Azoline and Sherbeen Hospital
  - Schools: Shehata Khafagy, Ezbet Al Bat, El Rest, San El Hagar Qeblia, San El Hagar Bahria, Gama Nossier, and Tafteesh El Serow
- Met with community stakeholders in person, in each Governorate, as part of the continued stakeholder engagement plan, to strengthen community engagement, further develop sustainable projects, and to build credibility by revisiting our previous projects.
- Followed up with each of the School IT Labs where the Company provided IT equipment in previous years and made sure that they are all working in a good condition.

- In 2017 an additional Field Assessment Trip was conducted to two newly-added projects. This assessment determined support and needs for the Orphanage Center and the Damietta University.
- As part of the sustainability requirements, in 2017, the Company continued to provide all the Health Units, Hospital, Schools and Orphanage Center with much-needed materials and equipment.
- Dana Gas Egypt staff from the HSSE Department provided specific HSSE training sessions in each the partner Schools, Health Units, Orphanage Center and Damietta University. HSSE training topics for each session were in accordance to the field assessment visits and training for staff focused on first aid, defensive driving, health care, sanitation/hygiene and home and work safety.
- The Company distributed 15 tablets to the best academically performance students in each partner school during the Field Assessment visit.
- Technical staff from Dana Gas Egypt conducted a technical training session to the students of the Faculty of Science in Damietta University.
- Arranged for a football match to the best academically performance students in Tafteesh El Serow School in Damietta.
- Conducted three days HSSE training sessions to a total of 270 doctors and nurses in each of the partner Health Units. Training topics related to Faraskur Directorate identified needs in health and safety, and also included a donation of first aid kits to each training participant.
- The Company supported the PMS (Petroleum Marine Services) with 'in kind sponsorship' to cover the Critical Medical Cases for parents in the Egypt oil and gas industry who do not have national health care coverage.

Khor Mor 2017 CSR activities

Throughout 2017 the Khor Mor Gas Plant, under the management of Credan (Crescent Petroleum and Dana Gas) continued with a focused and fit-for-purpose community social responsibility programme throughout the year, despite challenges and many requests for assistance from the local communities where the Company has its operations and assets.

The focus of the CSR support and assistance programmes during the year was on:

- Education support.
- Rural electricity generation and supply,
- Rural water supply and infrastructure maintenance.
- Local community health care.
- Regional youth development.
- Social assistance to regional communities and local governments.
- Agriculture development in the region.

Khor Mor 2017 CSR highlights

- Throughout the year there was a total of 80 recipients of aid and support directed towards the communities in the near vicinity of the Khor Mor Gas Plant. The total value of the assistance provided in 2017 for these 80 projects was US$1.35 million.
- The largest expenditure for support at US$1.115 million, or 83% of the total CSR expenditures for the year, was for electric generation and supply for Qadir Karam Town and five other smaller nearby villages.
- Electricity was generated by the Khor Mor generators for these villages throughout the entire year.
- The remaining US$230,000 went towards education, healthcare, water, agriculture and social assistance activities, of which, US$40,000 was used to fund ten local people for a temporary employment programme at Khor Mor.
- Khor Mor will continue with the provision of CSR activities in education, health, agriculture, social support, water and electricity generation in 2018.

In summary

Due to periods of instability in 2017 in some of the regions in which the Company operates, we believe that our support and involvement with the continuation of social contributions did make a difference to both communities and individuals.
We are committed to our CSR efforts as demonstrated in 2017, and 2018 will focus on sustainability and aligned CSR activities for each region we are operating in. This focus shall continue to improve healthcare, education and community engagement standards. We are pleased to continue to provide as much assistance as we can, keeping in mind of our responsibility to contribute towards improved sustainability in those areas where we are present.

- Dana Gas is committed to social investment and community development activities.
- Dana Gas recognises that Corporate Social Responsibility is about managing interactions between business and people, environment and communities.
- Our objective is to directly contribute to economic and social development while protecting natural resources and respecting the rights of individuals.
- We endeavour to make a positive and lasting contribution to society.
- We believe that the ideal way to achieve our sustainable goals is by empowering communities with resources that lead to successful results for all parties.
- One of the most essential factors for achieving our goals for sustainability and making the outcomes impactful is recognising the efforts of our valued employees.
- The success of the Dana Gas journey for community social responsibility and sustainability is ensuring that our employees are involved and engaged.
- The key to achieving the Dana Gas sustainability goals is through having a solid and reputable 'corporate governance' system in place.

"Dana Gas endeavours to assure our stakeholders that we are a responsible business and we will continue to focus on the environment and people issues. Our commitment is to deliver sustainable long-term value, while making a positive contribution to the communities with which we engage."

Opinion

We have audited the consolidated financial statements of Dana Gas PJSC (the 'Company' or 'Dana Gas') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, consolidated statement of other comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the 'IESBA Code') together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matters

We draw attention to the following matters:

(i) notes 12 (b) and 14 to the consolidated financial statements which disclose that the continued delay in commencement of gas supplies has prompted a key supplier of the Group to initiate arbitration proceedings against the ultimate supplier;

(ii) note 26 to the consolidated financial statements which discloses the ongoing legal actions with respect to the Company's Sukuk which matured in October 2017; and

(iii) note 15 (a) to the consolidated financial statements which discloses arbitration between the Group and a joint venture partner.

Our opinion is not modified in respect of the above matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

(i) Settlement agreement with the Kurdistan Regional Government of Iraq

As detailed in note 15 to the consolidated financial statements, on 30 August 2017 the Company announced the settlement of the International arbitration which commenced on 21 October 2013 in the London Court of International Arbitration (LCIA) in relation to the Heads of Agreement on Khor Mor and Chemchemal fields on 4 April 2007 (HOA) between Dana Gas, Crescent Petroleum, Pearl Petroleum (the 'Consortium') and the Kurdistan Regional Government (KRG), (together the 'Parties').

Pursuant to the Settlement Agreement, the residual KRG debt of US$1.25 billion (Dana Gas share: US$439 million), post-cash settlement of US$1 billion, was converted into a recoverable petroleum cost. This residual debt has been recorded as an addition to the oil and gas properties in the consolidated financial statements. This capitalisation to oil and gas properties is on the basis that it is to be recovered from the Government share and the additional value now attributable to Pearl Petroleum arises from the reduced Government share and the extended term of the Petroleum Development Agreement. Oil and gas interests are depleted using the unit of production method effective from 30 August 2017, and are subject to a periodic impairment test.

We have reviewed the related arbitration documents, legal opinions and the signed settlement agreement. We have discussed the settlement with the management and critically evaluated the accounting implications arising from the settlement agreement. We also assessed the adequacy of the disclosure made in relation to the settlement agreement in note 15 to the consolidated financial statements.

(ii) Recoverability of trade receivables from the Government of Egypt
The receivables from state owned companies of Government of Egypt, EGPC and EGAS amounted to US$228 million (note 17) as at 31 December 2017. Given the economic uncertainty in Egypt we continue to focus in our audit on the recoverability of this overdue amount. The management is confident of further progress in the collection of receivables in the near future due to its strong relationships with the Egyptian Government. There is no dispute on the outstanding receivable balance and based on the progress made on the Gas Production Enhancement Agreement including the commencement of shipments to allow for direct condensate export and significant receipts during the year of US$164 million, the management does not foresee any recovery issue on these receivables.

We discussed the status of these receivables with the Group's management and reviewed the Gas production enhancement agreements. We also obtained an understanding of the local environment in which the entity operates and its impact on the operations. We also considered cash received, including collections subsequent to the year end.

(iii) UAE gas project assets and legal arbitration
The UAE Gas Project to process and transport imported gas continues to await the commencement of gas supplies by the National Iranian Oil Company (NIOC) to Crescent Petroleum. Dana Gas has a 35% interest in Crescent National Gas Corporation Limited (CNGCL) and owns 100% of SajGas and UGTC, all of whose rights to recover their losses have been preserved and whose claims are being pursued by Crescent Petroleum. Assets of SajGas and UGTC include intangible and tangible assets of US$289 million and US$239 million respectively (note 12b). Dana Gas' 35% interest in the marketing entity CNGCL is recorded in the balance sheet at US$558 million (note 14). The carrying value of these assets is dependent upon the final Tribunal Award on the damages claim against NIOC and the resultant share of Dana Gas.

Crescent Petroleum, which has the gas supply contract with NIOC, commenced international arbitration against NIOC in June 2009 due to the continued delay in receipt of gas to supply the chain via CNGC. In August 2014, Dana Gas was notified by Crescent Petroleum that the Arbitral Tribunal issued a Final Award on the merits, determining that the 25-year contract between Crescent Petroleum and NIOC is valid and binding upon the parties, and that NIOC has been in breach of its contractual obligation to deliver gas under the contract since December 2005.

NIOC challenged the 2014 Award in the English High Court, which was finally dismissed in July 2016 and confirmed that the Award is final and binding. The final three-week hearing of the remedies phase against NIOC for non-performance of the contract (including claims for damages and indemnities for third party claims) took place in November 2016. Due to a long post-hearing submissions timetable, the tribunal indicated that its award will likely be delivered in 2H of 2018.

We have reviewed legal documents including the decision of the English High Court of July 2016 relating to the dismissal of the NIOC challenge of the Award, and discussed the progress and status with the legal department of Dana Gas. We also reviewed the adequacy of the related disclosures in the consolidated financial statements.

Considering the inherent uncertainty over the ultimate outcome of any arbitration or court process and the inherent uncertainty over the enforceability of the court orders, we have included an emphasis of this matter in this audit report.

(iv) Goodwill and oil and gas interest
As at 31 December 2017, the Group has goodwill of US$308 million (note 12) relating to Egyptian assets and tangible and intangible assets amounting to US$403 million (notes 11 and 12) relating to the oil and gas interests of Dana Gas Egypt and US$180 million (note 11) of development assets relating to the Zora Gas field in UAE. The current low price environment and uncertainty over timing of cash flows from these assets presents an increased risk of impairment.

The management undertook an impairment review of these assets as at 31 December 2017 using a discounted cash flow model supported by an independent expert's reserve report. This impairment test was significant because of the materiality of the balances and also as it requires significant management judgements and assumptions that are affected by future market conditions, particularly future oil/gas prices, expected reserves additions from the development activities currently in progress as part of Gas Production Enhancement Agreement, commercial recoverability of resources from prospects considered for goodwill valuation, macro-economic conditions in Egypt and the flow rates from the Zora Gas Field.

We evaluated the assumptions and methodologies used by the Group and the independent external expert, in particular those relating to discount rates, oil/gas prices, capital/operating expenditures and production profile. We evaluated the discount rate used by comparing key inputs, where relevant, to the externally derived data and market rates. We agreed the forward looking data used in the impairment models to the business plan. We corroborated the short and long-term oil/gas prices assumptions used by management in the business plan to the contractual arrangement and third party forecasts. We compared future capital and operating expenditure to current sanctioned budgets, historical expenditure and ensured variations were in accordance with our expectations based upon other information obtained throughout the audit. We also reviewed the reasonableness of the production profile in light of reserves volumes certified by independent external experts and historical operations.

Key audit matters continued

(iv) Goodwill and oil and gas interest continued

In addition to the above, we performed audit procedures on the mathematical integrity of the impairment models and performed sensitivity analysis over inputs to the cash flow models. We have evaluated the objectivity, independence and expertise of the independent external expert. We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of oil and gas assets and goodwill which are disclosed in note 12 to the consolidated financial statements.

(v) Sukuk refinancing

As at 31 December 2017, the Group had US$700 million of issued Sukuk, disclosed as capital received on issuance of Sukuk. The Sukuk which matured on 30 October 2017 is secured against the shares of Dana LNG Ventures Limited (BVI), Sajaa Gas Company Limited (Sharjah) and United Gas Transmission Company Limited (Sharjah), certain receivables of the Group's Egyptian assets, the Group's interest in Danagaz W.L.L. and Sajaa Gas industrial land.

The Company's independent legal advisers have advised that the terms of the Sukuk are not compliant with UAE law and Shari'a principles and therefore are void and unenforceable. Accordingly, the Company instituted legal action in the UAE courts for a declaration to that effect and seeking liquidation of the Mudarabah and a reconciliation of the amounts paid. Certain Sukuk holders have in turn initiated legal action against the Company to enforce the contractual terms of the Sukuk.

We have reviewed the independent external legal opinions, and court rulings and judgements received by the Company relating to the ongoing Sukuk litigation. We have discussed with the management and evaluated the implication of the ongoing litigation may have on the consolidated financial statements. We also assessed the adequacy of the Group's disclosure regarding the ongoing litigation relating to the Sukuk made in note 26 of the consolidated financial statements.

Considering the inherent uncertainty over the ultimate outcome of any court process, we have included an emphasis of this matter in this audit report.

(vi) Arbitration with a Joint Venture Partner

As disclosed in note 15 to the consolidated financial statement, the Company, together with Crescent Petroleum International Limited ('Crescent Petroleum'), commenced arbitration proceedings against MOL Group (MOL) on 20 September 2017 arising out of MOL's conduct as a 10% shareholder in Pearl Petroleum Company Limited ('Pearl') relating to the settlement of the arbitration with the KRG as discussed in point (i) above. MOL have asserted that the Company is in default of its obligations under the Pearl Shareholders Agreement.

Dana Gas and Crescent Petroleum reject the allegations and the default notice, and have been forced to initiate arbitration in The London Court of International Arbitration in order to obtain a formal declarations to resolve these matters.

We have discussed the status of the ongoing arbitration with the Group's management including the legal department, in addition to review of independent external legal confirmations. We have reviewed the correspondence between Pearl and its joint venture partners, and the related arbitration documents. We have also evaluated management's rationale for concluding on the validity of the settlement agreement.

Considering the inherent uncertainty over the ultimate outcome of any arbitration or court process, we have included an emphasis of this matter in this audit report.

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the Report of the Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2017 Annual Report after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the article of association of the Company and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

i) we have obtained all the information we considered necessary for the purposes of our audit;
ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 and the Articles of Association of the Company;
iii) the Group has maintained proper books of account;
iv) the financial information included in the Report of the Directors is consistent with the books of account of the Group;
v) investments in shares and stocks during the year ended 31 December 2017, if any, are disclosed in note 18 to the consolidated financial statements;
vi) note 31 reflects material related party transactions and the terms under which they were conducted;
vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017; and
viii) note 35 reflects the social contributions made during the year.

For Ernst & Young

Anthony O'Sullivan
Partner
Registration No. 687

14 March 2018

Sharjah, United Arab Emirates

Consolidated Income Statement
For the year ended 31 December 2017

	Notes	2017 US$ mm	2017 AED mm	2016 US$ mm	2016 AED mm
Revenue	5	**450**	**1,649**	392	1,437
Royalties	5	**(169)**	**(619)**	(137)	(502)
Net revenue	5	**281**	**1,030**	255	935
Operating costs		**(52)**	**(191)**	(52)	(191)
Depreciation and depletion	11	**(111)**	**(407)**	(100)	(366)
Gross profit		**118**	**432**	103	378
General and administration expenses		**(15)**	**(55)**	(13)	(48)
Investment and finance income/(cost)	6	**24**	**88**	(55)	(202)
Other income	7	**26**	**95**	–	–
Reversal of surplus over entitlement	29	**114**	**418**	39	143
Other expenses		**(20)**	**(73)**	(19)	(69)
Provision for impairment		**(36)**	**(132)**	(7)	(26)
Change in fair value of investment property	13	**–**	**–**	(1)	(4)
Share of loss of a joint venture	14	**–**	**–**	(3)	(11)
Exploration expenses/write-off		**(19)**	**(69)**	(4)	(15)
Finance cost	8	**(71)**	**(260)**	(97)	(355)
PROFIT/(LOSS) BEFORE INCOME TAX		**121**	**444**	(57)	(209)
Income tax expense	9	**(38)**	**(139)**	(31)	(114)
PROFIT/(LOSS) FOR THE YEAR		**83**	**305**	(88)	(323)
PROFIT/(LOSS) ATTRIBUTABLE TO:					
– Equity holders of the parent		**83**	**305**	(88)	(323)
– Non-controlling interest		**–**	**–**	–	–
		83	**305**	(88)	(323)
EARNINGS PER SHARE:					
– Basic earnings/(loss) per share (US$/AED per share)	10	**0.012**	**0.044**	(0.013)	(0.046)
– Diluted earnings/(loss) per share (US$/AED per share)	10	**0.012**	**0.044**	(0.013)	(0.046)

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Other Comprehensive Income
For the year ended 31 December 2017

	2017		2016	
	US$ mm	AED mm	US$ mm	AED mm
Profit/(Loss) for the year	**83**	**305**	(88)	(323)
Other comprehensive income	**–**	**–**	–	–
Other comprehensive income for the year	**–**	**–**	–	–
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**83**	**305**	(88)	(323)
ATTRIBUTABLE TO:				
– Equity holders of the parent	**83**	**305**	(88)	(323)
– Non-controlling interest	**–**	**–**	–	–
	83	**305**	(88)	(323)

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Financial Position
As at 31 December 2017

	Notes	2017 US$ mm	2017 AED mm	2016 US$ mm	2016 AED mm
ASSETS					
Non-current assets					
Property, plant and equipment	11	**1,462**	**5,360**	1,105	4,050
Intangible assets	12	**644**	**2,361**	690	2,529
Investment property	13	**24**	**87**	24	87
Interest in joint ventures	14	**560**	**2,053**	560	2,053
		2,690	**9,861**	2,379	8,719
Current assets					
Inventories	16	**50**	**183**	49	180
Trade and other receivables	17	**285**	**1,045**	1,026	3,761
Financial assets at fair value through profit or loss	18	**9**	**33**	9	33
Funds held for development	19	**140**	**513**	–	–
Cash and bank balance	20	**608**	**2,229**	302	1,107
		1,092	**4,003**	1,386	5,081
TOTAL ASSETS		**3,782**	**13,864**	3,765	13,800
EQUITY AND LIABILITIES					
Capital and reserves attributable to equity holders of the Parent					
Share capital	21	**1,903**	**6,977**	1,901	6,969
Statutory reserve	22	**116**	**424**	108	395
Legal reserve	22	**116**	**424**	108	395
Retained earnings		**669**	**2,453**	603	2,210
Other reserves	23	**4**	**15**	3	11
Convertible bonds – equity component		**58**	**212**	58	212
Attributable to equity holders of the Parent		**2,866**	**10,505**	2,781	10,192
Non-controlling interest		**1**	**4**	1	4
Total equity		**2,867**	**10,509**	2,782	10,196
Non-current liabilities					
Borrowings	25	**19**	**70**	62	227
Provisions	27	**14**	**51**	11	40
		33	**121**	73	267
Current liabilities					
Capital received on issuance of Sukuk	26	**700**	**2,566**	700	2,566
Borrowings	25	**4**	**15**	41	150
Trade payables and accruals	28	**178**	**653**	128	470
Provision for surplus over entitlement (net)	29	**–**	**–**	41	151
		882	**3,234**	910	3,337
Total liabilities		**915**	**3,355**	983	3,604
TOTAL EQUITY AND LIABILITIES		**3,782**	**13,864**	3,765	13,800

Said Arrata
Director
14 March 2018

Rashid S. Al-Jarwan
Director
14 March 2018

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 US$ mm	2017 AED mm	2016 US$ mm	2016 AED mm
OPERATING ACTIVITIES					
Profit/(Loss) before income tax		**121**	**444**	(57)	(209)
Adjustments for:					
Depreciation and depletion	11	**111**	**407**	100	366
Other income		**(26)**	**(95)**	–	–
Investment and finance income/(cost)	6	**(24)**	**(88)**	55	202
(Reversal of)/Provision for surplus over entitlement		**(114)**	**(418)**	(39)	(143)
Provision for impairments		**36**	**132**	7	26
Change in fair value of investment property	13	**–**	**–**	1	4
Share of loss of a joint venture	14	**–**	**–**	3	11
Exploration expenses		**19**	**69**	–	–
Finance cost		**71**	**260**	77	282
Directors' fee		**–**	**–**	(2)	(7)
		194	**711**	145	532
Changes in working capital:					
Trade and other receivables		**405**	**1,485**	(12)	(44)
Funds held for development		**(140)**	**(513)**		
Inventories		**(1)**	**(3)**	4	14
Trade payables and accruals		**45**	**164**	(24)	(88)
Net cash generated from operating activities		**503**	**1,844**	113	414
Income tax paid		**(38)**	**(139)**	(31)	(114)
Net cash flows generated from operating activities		**465**	**1,705**	82	300
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(40)**	**(146)**	(86)	(315)
Expenditure on intangible assets		**(12)**	**(44)**	(26)	(95)
Investment and finance income received		**6**	**22**	4	14
Investment in joint venture		**–**	**–**	(3)	(11)
Net cash flows used in investing activities		**(46)**	**(168)**	(111)	(407)
FINANCING ACTIVITIES					
Proceeds from borrowings		**–**	**–**	9	33
Repayment of loans		**(81)**	**(298)**	(39)	(143)
Repurchase of Sukuk		**–**	**–**	(45)	(164)
Finance costs paid		**(32)**	**(117)**	(64)	(234)
Deposit – Murabaha facility	20	**10**	**37**	19	70
Net cash flow used in financing activities		**(103)**	**(378)**	(120)	(438)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**316**	**1,159**	(149)	(545)
Cash and cash equivalents at the beginning of the year	20	**292**	**1,070**	441	1,615
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	20	**608**	**2,229**	292	1,070

The attached notes 1 to 35 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity
For the year ended 31 December 2017

	Attributable to the equity holders of the Parent															
	Share capital		Statutory reserve		Legal reserve		Retained earnings		Other reserves		Convertible bonds- equity component		Non-controlling interest		Total	
	US$ mm	AED mm	US$ mm	AED mm	US$ mm	AED mm	US$ mm	AED mm	US$ mm	AED mm	US$ mm	AED mm	US$ mm	AED mm	US$ mm	AED mm
As at 1 January 2016	1,901	6,969	108	395	108	395	693	2,540	2	7	58	212	1	4	2,871	10,522
Loss for the year	–	–	–	–	–	–	(88)	(323)	–	–	–	–	–	–	(88)	(323)
Total comprehensive income for the year	–	–	–	–	–	–	(88)	(323)	–	–	–	–	–	–	(88)	(323)
Share-based payment	–	–	–	–	–	–	–	–	1	4	–	–	–	–	1	4
Board compensation	–	–	–	–	–	–	(2)	(7)	–	–	–	–	–	–	(2)	(7)
As at 31 December 2016	1,901	6,969	108	395	108	395	603	2,210	3	11	58	212	1	4	2,782	10,196
Profit for the year	–	–	–	–	–	–	83	305	–	–	–	–	–	–	83	305
Total comprehensive income for the year	–	–	–	–	–	–	83	305	–	–	–	–	–	–	83	305
Transfer to reserves	–	–	8	29	8	29	(16)	(58)	–	–	–	–	–	–	–	–
Share-based payment	–	–	–	–	–	–	–	–	2	8	–	–	–	–	2	8
Transfer	–	–	–	–	–	–	(1)	(4)	1	4	–	–	–	–	–	–
Issuance of shares to employees	2	8	–	–	–	–	–	–	(2)	(8)	–	–	–	–	–	–
As at 31 December 2017	**1,903**	**6,977**	**116**	**424**	**116**	**424**	**669**	**2,453**	**4**	**15**	**58**	**212**	**1**	**4**	**2,867**	**10,509**

The attached notes 1 to 35 form part of these consolidated financial statements.

1 Corporate Information

Dana Gas PJSC ('Dana Gas' or the 'Company') was incorporated in the Emirate of Sharjah, United Arab Emirates as a Public Joint Stock Company on 20 November 2005 pursuant to incorporation decree number 429/2005 issued by the Ministry of Economy. Dana Gas shares are listed on the Abu Dhabi Securities Exchange (ADX).

The Company, its subsidiaries, joint operations and joint ventures constitute the Group (the 'Group'). The Group is engaged in the business of exploration, production, ownership, transportation, processing, distribution, marketing and sale of natural gas and petroleum-related products, including the development of gas-related projects and services.

The Company's registered head office is at P. O. Box 2011, Sharjah, United Arab Emirates with presence in Cairo (Egypt) and Kurdistan Region of Iraq.

Principal subsidiaries and joint arrangements of the Group at 31 December 2017 and 2016 and the Company (direct and indirect) percentage of ordinary share capital or interest are set out below:

Subsidiaries	%	Country of incorporation	Principal activities
Dana LNG Ventures Limited	100	British Virgin Islands	Intermediate holding company of Dana Gas Egypt
Dana Gas Red Sea Corporation	100	Barbados	Holding company of Dana Gas Egypt
Dana Gas Egypt Ltd. ('Dana Gas Egypt')	100	Barbados	Oil and Gas exploration & production
Dana Gas Explorations FZE	100	UAE	Oil and Gas exploration & production
Sajaa Gas Private Limited Company ('SajGas')	100	UAE	Gas Sweetening
United Gas Transmissions Company Limited (UGTC)	100	UAE	Gas Transmission
Danagaz (Bahrain) WLL	66	Bahrain	Gas Processing

Joint operations	%	Area of operation	Principal activities
Pearl Petroleum Company Limited ('Pearl Petroleum')	35	Kurdistan Region of Iraq	Oil and Gas exploration & production
UGTC/Emarat JV	50	Emirate of Sharjah	Gas Transmission

Joint Ventures	%	Country/Area of operation	Principal activities
Egyptian Bahraini Gas Derivative Company (EBGDCO)	26.4	Egypt	Gas Processing
Crescent National Gas Corporation Limited (CNGCL)	35	Emirate of Sharjah	Gas Marketing
GASCITIES Ltd	50	MENASA	Gas Cities

2 Summary of Significant Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment property and financial assets at fair value through profit or loss account that have been measured at fair value. The consolidated financial statements are presented in United States dollars (US$), which is the Company's functional currency, and all the values are rounded to the nearest million (US$ mm) except where otherwise indicated. The United Arab Emirates dirhams (AED) amounts have been presented solely for the convenience to readers of the consolidated financial statements. AED amounts have been translated at the rate of AED3.6655 to US$1.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time effective for the financial year beginning on or after 1 January 2017. The Group has not early adopted any standard, interpretation or amendment that has been issued but are not yet effective. The nature and the impact of these changes are disclosed below.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The amendment does not have any effect on the Group's financial positions and performance.

Annual improvements *2012-2014 Cycle*
IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirement in IFRS 12*
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendment does not have any effect on the Group's financial positions and performance.

Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The standards are not expected to have any material impact on the consolidated financial statements of the Group.

IFRS 9 Financial Instruments
During July 2014, the IASB issued IFRS 9 'Financial Instruments' with all the three phases. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 as issued in July 2014 will be implemented at the mandatory date on 1 January 2018. The standard is not expected to have any material impact on the Group other than disclosure in the consolidated financial statements.

Standards issued but not yet effective
IFRS 16 Leases
During January 2016, the IASB issued IFRS 16 'Leases' which sets out the principle for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or financial leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Company is currently assessing the impact of IFRS 16 'Leases' on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue-Barter Transactions Involving Advertising Services. The standard is effective for annual period beginning on or after 1 January 2018, and early adoption is permitted. This standard is not expected to have any material impact on the Group's revenue recognition policies and consolidated financial statements of the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligation; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities may apply the amendments prospectively and are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments will not have any impact on the consolidated financial statements of the Group because it does not have any cash-settled share-based payment transaction.

2 Summary of Significant Accounting Policies continued

Standards issued but not yet effective continued

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively and effective for annual periods beginning on or after 1 January 2018. Early adoption of the amendments is permitted and must be disclosed. These amendments will not have any impact on the consolidated financial statements of the Group since Group's current practice is in line with classification issued.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. Entities may apply the amendments on a fully retrospective or prospective basis. The new interpretation will be effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017.

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

Where the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement(s) with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owner of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gain or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Inter-Company transactions, balances and unrealised gains on transaction between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates in the income statement.

2 Summary of Significant Accounting Policies continued

Basis of consolidation continued

(d) Associates continued

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

(e) Joint arrangements

The Group has applied IFRS 11 to all joint arrangements as of 1 January 2013. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interest in joint operations, the Group recognises its:
- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from sale of its share of the output arising from the joint operations;
- share of the revenue from the sale of the output by the joint operations; and
- expenses, including its share of any expenses incurred jointly.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US$ which is the Company's functional currency and AED is presented as the Group's presentation currency for the convenience of the users of the consolidated financial statements.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) assets and liabilities for each items of financial position presented are translated at the closing rate at the date of statement of financial position;
b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
c) all resulting exchange differences are recognised in other comprehensive income.

Property, plant and equipment

Property, plant and equipment is stated at cost net of accumulated depreciation and/or accumulated impairment losses, if any. Land is not depreciated.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Oil and gas properties	unit-of-production
Buildings	25 years
Gas plant	15-25 years/unit-of-production
Pipelines and related facilities	25 years/unit-of-production

Other assets:

Computers	2-3 years
Furniture and fixtures	3 years-5 years
Vehicles	3 years-5 years
Leasehold improvements	over the expected period of lease

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

2 Summary of Significant Accounting Policies continued

Property, plant and equipment continued

The residual values and useful lives of property, plant and equipment are reviewed at each financial year end and adjusted prospectively if appropriate.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Capital work-in-progress is stated at cost. On commissioning, capital work-in-progress is transferred to property, plant and equipment and depreciated or depleted in accordance with Group policies.

Oil and gas assets

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Pre-license costs are expensed in the period in which they are incurred. License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit. Exploration license and leasehold property acquisition costs are capitalised in intangible assets. Geological and geophysical costs are recognised in the income statement, as incurred.

Costs directly associated with an exploration well are capitalised as an intangible asset until the drilling of the well is complete and the results have been evaluated. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to a technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proven reserves of oil and natural gas are determined and development is sanctioned, capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

(a) Depletion

Oil and gas properties are depleted using the unit-of-production method. Unit-of-production rates are based on proved reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods.

(b) Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less cost to sell and their value in use. For the purpose of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

Intangible assets

Intangible assets acquired as part of a business combination relating to oil and gas properties are recognised separately from goodwill if the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as a change in accounting estimate.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually either individually or at the cash-generating unit level. When development in respect of the oil and gas properties is internally approved, the related amount is transferred from intangible assets to property, plant and equipment and depleted in accordance with the Group's policy. If no future activity is planned, the remaining balance is written off.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of the non-controlling interest in the acquire.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying a mount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset or a cash-generating unit (CGU) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's or CGU's recoverable amount. An asset's or CGU's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets in which case, the asset is tested as part of a large CGU to which it belongs. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assumptions of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset or CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables'.

2 Summary of Significant Accounting Policies continued

Financial assets continued

Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting period. After initial measurement, AFS investments are subsequently measured at fair value with unrealised gains or losses recognised as 'other comprehensive income' in the AFS reserve (fair value reserve) until the investment is derecognised. At that time cumulative gain is recognised in other income and cumulative loss is recognised as finance costs and removed from AFS reserve.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gain or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'investment and finance income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payment is established.

The fair value of quoted investments is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These includes the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

The Group assesses, at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investment properties

Investment properties are initially measured at cost, including transaction costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the consolidated income statement in the period in which it is accrued.

Subsequently investment properties are stated at fair value, which reflects market conditions at the reporting date. Any gains or loss arising from changes in fair values of investment properties are included in the income statement. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of spares and consumables are determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables
Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents
In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Trade payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions
General
Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Decommissioning liability
Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset. The abandonment and site restoration costs initially recorded are depleted using the unit-of-production method based on proven oil and gas reserves. Subsequent revisions to abandonment and site restoration costs are considered as a change in estimates and are accounted for on a prospective basis.

Employees' end of service benefits
The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Income taxes
In Egypt, the government receives production in lieu of income tax. The Group records this production as a current income tax expense.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of respective assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as finance cost in the income statement in the period in which they are incurred.

Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

Profit-bearing loans and borrowings
All profit-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument.

After initial recognition, profit-bearing loans and borrowings are subsequently measured at amortised cost using the effective profit rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Convertible bonds
Convertible bonds that can be converted into share capital at the option of the holder and are accounted for as compound financial instruments. The equity component of the convertible bonds is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

2 Summary of Significant Accounting Policies continued

Share-based payment transactions

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for either equity instruments ('equity-settled transactions') or restricted shares.

Restricted shares

Service-based restricted shares are granted at no cost to key employees and generally vest one-third each year over a three-year period from the date of grant. Restricted shares vest in accordance with the terms and conditions established by the Board of Directors and are based on continued service.

The fair value of service-based restricted shares is determined based on the numbers of shares granted and the closing price of the Company's common stock on the date of grant. The cost is being amortised on a straight-line method, based on the vesting period.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within 12 months after the reporting period or cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as non-current.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are reclassified to the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement, in the same line of the consolidated statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated income statement.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Net revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment, excluding royalties, discounts, rebates and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sale of hydrocarbons

Revenue from sale of hydrocarbons is recognised when the significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction can be measured reliably, which is considered to occur when title passes to the customer.

Finance income

Income from surplus funds invested with financial institutions and interest charged to debtors for overdue receivables is recognised as the profit/interest accrues.

3 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and accompanying disclosures, and the disclosure of contingent asset and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates if different assumptions were used and different conditions existed. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Estimates and assumptions

The Group has identified the following areas where significant estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Changes in estimates are accounted for prospectively. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the consolidated financial statements. The Group based its assumptions and estimates on parameter available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

- Impairment of goodwill: The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was US$308 million (2016: US$308 million).
- Recoverability of intangible oil and gas assets: The Group assesses at each statement of financial position date whether there is any evidence of impairment in the carrying value of its intangible oil and gas assets. This requires management to estimate the recoverable value of its intangible oil and gas assets using estimates and assumptions such as long-term oil prices, discount rates, operating costs, future capital requirements, decommissioning costs, explorations potentials, reserves and operating performance uncertainty. These estimates and assumptions are subject to risk and uncertainty. The carrying amount of such intangibles at 31 December 2017 was US$47 million (2016: US$93 million).
- The Group is entitled to further contingent compensation and payments under the terms of the RWE settlement agreement, however as of the reporting date these cannot be reasonably ascertained.
- The Group carries its investment property at fair value, with changes in fair values being recognised in the consolidated income statement. The Group engaged a firm of qualified independent property consultant to determine fair value reflecting market conditions at 31 December 2017.
- Decommissioning costs: Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.
- Units of production depreciation of oil and gas properties: Oil and gas properties are depreciated using the units of production (UOP) method over total proved reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field. Each items' life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates changes. Changes to prove reserves could arise due to changes in the factors or assumptions used in estimating reserves and are accounted for prospectively.

3 Significant Accounting Judgements, Estimates and Assumptions continued

Estimates and assumptions continued

- Exploration and evaluation expenditures: The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.
- Hydrocarbon reserve and resource estimates: Oil and gas properties are depreciated on a units UOP basis at a rate calculated by reference to total proved reserves determined in accordance with the Society of Petroleum Engineers' rules and incorporating the estimated future cost of developing those reserves. The Group estimates its commercial reserves based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the relevant commercial arrangements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of oil and gas properties at 31 December 2017 is shown in note 11.

- As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:
  - The carrying value of oil and gas properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows.
  - Depreciation and amortisation charges in profit or loss may change where such charges are determined using the UOP method, or where the useful life of the related assets change.
  - Provisions for decommissioning may change as the changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.

4 Segmental Information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions. The CEO considers the business from a geographic perspective which is divided into three geographical units. The Group's financing and investments are managed on a Group basis and not allocated to segment.

Year ended 31 December 2017

	United Arab Emirates US$ mm	Egypt US$ mm	Kurdistan Region of Iraq US$ mm	Total US$ mm
Revenue net of royalties	**18**	**165**	**98**	**281**
Gross profit				**118**
General and administration expenses				**(15)**
Investment and finance income				**24**
Other income				**26**
Reversal of surplus over entitlement				**114**
Other expenses				**(20)**
Provision for impairments				**(36)**
Exploration expenses				**(19)**
Finance cost				**(71)**
Profit before income tax				**121**
Income tax expense				**(38)**
PROFIT FOR THE YEAR				**83**
Segment assets as at 31 December 2017	**1,912**	**1,023**	**847**	**3,782**
Segment liabilities as at 31 December 2017	**770**	**108**	**37**	**915**
Other segment information				
Capital expenditure:				
Property, plant and equipment	**–**	**35**	**–**	**35**
Intangible assets	**–**	**12**	**–**	**12**
Total	**–**	**47**	**–**	**47**
Operating cost	**9**	**23**	**20**	**52**
Depreciation and depletion	**20**	**67**	**24**	**111**
Provision for impairments	**36**	**–**	**–**	**36**
Exploration expenses	**–**	**19**	**–**	**19**

4 Segmental Information continued

Year ended 31 December 2016

	United Arab Emirates US$ mm	Egypt US$ mm	Kurdistan Region of Iraq US$ mm	Total US$ mm
Revenue net of royalties	23	154	78	255
Gross profit				103
General and administration expenses				(13)
Investment and finance loss				(55)
Reversal of surplus over entitlement				39
Provision for impairments				(7)
Other expenses				(19)
Change in fair value of investment property				(1)
Share of loss of a joint venture				(3)
Exploration expenses				(4)
Finance cost				(97)
Loss before income tax				(57)
Income tax expense				(31)
LOSS FOR THE YEAR				(88)
Segment assets as at 31 December 2016	1,659	1,111	995	3,765
Segment liabilities as at 31 December 2016	784	131	68	983
Other segment information				
Capital expenditure:				
Intangible assets	–	29	–	29
Property, plant and equipment	6	87	–	93
Total	6	116	–	122
Operating cost	11	23	18	52
Depreciation and depletion	15	68	17	100
Change in fair value of investment property	1	–	–	1
Provision for impairments	6	1	–	7
Exploration expenses	–	4	–	4

5 Revenue

	2017 US$ mm	2016 US$ mm
Gross revenue	**446**	388
Tariff fee	**4**	4
	450	392
Less: Royalties	**(169)**	(137)
Net revenue	**281**	255

Royalties relate to Government share of production in Egypt and the United Arab Emirates.

Tariff fees relates to fixed pipeline capacity fees earned by UGTC.

6 Investment and Finance Income/(Cost)

	2017 US$ mm	2016 US$ mm
Interest on overdue receivable/(reversed) (note 29)	**17**	(66)
Gain on buyback of Sukuk	**–**	6
Profit from bank deposits	**6**	4
Fair value gain on financial assets at fair value through profit or loss (note 18)	**–**	1
Exchange gain	**1**	–
	24	(55)

7 Other Income

As part of the RWE settlement agreement, the Company is entitled to further confined payments from RWE only in case and in the amount dividends are distributed to RWE by Pearl (based on RWE's 10% equity in Pearl). During 2017, the Company has received an amount of US$26 million towards such confined payments.

8 Finance Cost

	2017 US$ mm	2016 US$ mm
Profit on Sukuk (note 26)	**66**	69
Zora gas field project finance (note 25a)	**3**	5
Egypt equipment and building loan (note 25b and c)	**2**	2
Murabaha facility	**–**	1
Exchange loss	**–**	20
	71	97

9 Income Tax Expense

a) UAE

The Company is not liable to corporate income tax in its primary jurisdiction (UAE). Dana Gas Exploration FZE is however liable to income tax at a rate of 50%.

b) Egypt

The income tax expense in the statement of income relates to Dana Gas Egypt operations which is taxed at an average tax rate of 40.55% (2016: 40.55%). This tax is paid by Egyptian General Petroleum Corporation (EGPC)/Egyptian Natural Gas Holding Company (EGAS) on behalf of the Company from their share of production. Dana Gas Egypt does not have any deferred tax asset/liability at year end.

c) Kurdistan Region of Iraq

The Authorisation provides that corporate income tax in the Kurdistan Region of Iraq will be paid directly by the KRG to the relevant tax authorities on behalf of the Company.

10 Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2017	2016
Earnings:		
Net profit/(loss) for the year – US$ mm	**83**	(88)
Shares:		
Weighted average number of shares outstanding for calculating basic EPS- million	**6,977**	6,969
EPS (basic) – US$ per share:	**0.012**	(0.013)

EPS (diluted)

Employee restricted shares are anti-dilutive and have no impact on the EPS for the years ended 31 December 2017 and 31 December 2016.

11 Property, Plant and Equipment

	Freehold land US$ mm	Building US$ mm	Oil and gas interests US$ mm	Plant and equipment US$ mm	Other assets US$ mm	Pipeline & related facilities US$ mm	Capital work-in-progress US$ mm	Total US$ mm
Cost:								
At 1 January 2017	**14**	**12**	**1,128**	**451**	**38**	**170**	**208**	**2,021**
Additions	**–**	**–**	**32**	**2**	**1**	**–**	**–**	**35**
Adjustment*	**–**	**–**	**439**	**(3)**	**–**	**(8)**	**–**	**428**
Impairment	**–**	**–**	**(34)**	**–**	**–**	**–**	**–**	**(34)**
Transfer from intangible assets (note 12)	**–**	**–**	**39**	**–**	**–**	**–**	**–**	**39**
At 31 December 2017	**14**	**12**	**1,604**	**450**	**39**	**162**	**208**	**2,489**
Depreciation/Depletion:								
At 1 January 2017	**–**	**4**	**742**	**115**	**18**	**37**	**–**	**916**
Depreciation/Depletion charge for the year	**–**	**–**	**76**	**25**	**1**	**9**	**–**	**111**
At 31 December 2017	**–**	**4**	**818**	**140**	**19**	**46**	**–**	**1,027**
Net carrying amount:								
At 31 December 2017	**14**	**8**	**786**	**310**	**20**	**116**	**208**	**1,462**

Capital work in progress comprises:	US$ mm
SajGas plant and facilities	**99**
UGTC pipeline and related facilities	**89**
Kurdistan Region of Iraq project	**11**
Sharjah Western Offshore (including Zora field)	**9**
	208

* Oil and Gas Interest addition includes residual amount receivable from KRG of US$1.25 billion (DG Share: US$439 million), post cash settlement of US$1 billion, which was converted to Petroleum Cost pursuant to the Settlement Agreement. This is depleted using the unit of production method.

	Freehold land US$ mm	Building US$ mm	Oil and gas interests US$ mm	Plant and equipment US$ mm	Other assets US$ mm	Pipeline & related facilities US$ mm	Capital work-in-progress US$ mm	Total US$ mm
Cost:								
At 1 January 2016	14	12	889	340	36	107	450	1,848
Additions/Adjustment	–	–	89	(4)	2	–	6	93
Transfer from capital work-in-progress	–	–	70	115	–	63	(248)	–
Transfer from intangible assets (note 12)	–	–	84	–	–	–	–	84
Impairment	–	–	(4)	–	–	–	–	(4)
At 31 December 2016	14	12	1,128	451	38	170	208	2,021
Depreciation/Depletion:								
At 1 January 2016	–	3	675	92	17	29	–	816
Depreciation/Depletion charge for the year	–	1	67	23	1	8	–	100
At 31 December 2016	–	4	742	115	18	37	–	916
Net carrying amount:								
At 31 December 2016	14	8	386	336	20	133	208	1,105

Capital work in progress comprises:	US$ mm
SajGas plant and facilities	99
UGTC pipeline and related facilities	89
Kurdistan Region of Iraq project	11
Sharjah Western Offshore (including Zora field)	9
	208

12 Intangible Assets

	Oil and gas interests US$ mm	Transmission & sweetening rights US$ mm	Gas processing rights US$ mm	Development cost US$ mm	Goodwill US$ mm	Total US$ mm
Cost at 1 January 2017	**195**	**289**	**7**	**2**	**308**	**801**
Less: impairment	**(102)**	**–**	**(7)**	**(2)**	**–**	**(111)**
At 1 January 2017	**93**	**289**	**–**	**–**	**308**	**690**
Additions	**12**	**–**	**–**	**–**	**–**	**12**
Transfer to property, plant and equipment (note 11)	**(39)**	**–**	**–**	**–**	**–**	**(39)**
Exploration expenses	**(19)**	**–**	**–**	**–**	**–**	**(19)**
At 31 December 2017	**47**	**289**	**–**	**–**	**308**	**644**

	Oil and gas interests US$ mm	Transmission & sweetening rights US$ mm	Gas processing rights US$ mm	Development cost US$ mm	Goodwill US$ mm	Total US$ mm
Cost at 1 January 2016	253	289	7	2	308	859
Less: impairment	(102)	–	(7)	(2)	–	(111)
At 1 January 2016	151	289	–	–	308	748
Additions (net)	26	–	–	–	–	26
Transfer to property, plant and equipment (note 11)	(84)	–	–	–	–	(84)
At 31 December 2016	93	289	–	–	308	690

(a) Oil and gas interests

Oil and gas interests of US$47 million relates to Dana Gas Egypt which has a number of concessions and development leases in Egypt as described below in more detail:

- El Wastani Development Lease – This development lease is held with a 100% working interest and represents approximately 6% of current production in Dana Gas Egypt. El Wastani production includes both gas and associated gas liquids. This lease has 13,017 acres of land included within its boundary and is located in the Nile Delta of Egypt.
- South El Manzala Development Leases – These development leases are held with a 100% working interest and are not currently producing. These development leases have 16,055 acres of land included within their boundaries and are located in the Nile Delta of Egypt.
- West El Manzala Development Leases (West El Manzala Concession) – These development leases are held with a 100% working interest. These development leases have 146,039 acres of land included within their boundaries and are located in the Nile Delta of Egypt. To date, 11 development leases are producing both natural gas and associated liquids representing approximately 86% of Dana Gas Egypt current production.
- West El Qantara Development Leases (West El Qantara Concession) – These development leases are held with a 100% working interest. These development leases have 4,324 acres of land included within their boundaries and are located in the Nile Delta of Egypt. To date, two development leases are producing both natural gas and associated liquids representing approximately 8% of Dana Gas Egypt current production.
- North Al Arish Offshore (Block-6) – In April 2013, Dana Gas Egypt was awarded a 100% working interest in the North El Arish Offshore (Block 6) concession area. The area is located offshore Nile Delta, in the eastern part of the Mediterranean Sea. A 3D seismic acquisition was recently carried out in the Block, covering 1,830 full fold sq. km.
- North Al Salhiya Onshore (Block-1) – In September 2014, Dana Gas Egypt was awarded a 100% working interest in the North El Salhiya Onshore (Block 1) concession area. The area is located onshore Nile Delta.
- El Matariya Onshore (Block-3) – In September 2014, Dana Gas Egypt was awarded a 50% working interest in the Block 3 concession area. The area is located onshore Nile Delta. As per the concession agreement, Dana Gas Egypt as a partner and BP as an operator will participate on a 50:50 basis. The first deep target exploration well in the concession was spud in May 2016. During the year, the BP operated Mocha-1 exploration well in Block 3 has been completed. It reached total depth at 5,940 metres, making it the deepest onshore Nile Delta well drilled to date. Whilst the Messinian objective encountered wet gas, the primary Oligocene target did not encounter gas in commercial quantities and the well has been P&A'ed. Under the terms of the agreement signed in June 2015, BP agreed to carry Dana Gas for its 50% share of the cost of the well. Consequently, Dana Gas has achieved its objective of drilling this important calibration well at no cost to itself.

12 Intangible Assets continued

(b) Transmission and sweetening rights

Intangible assets include US$289 million which represent the fair value of the rights for the transmission and sweetening gas and related products acquired by the Company through its shareholdings in SajGas and UGTC. The fair value of the rights acquired in 2005 was determined by reference to valuation exercises undertaken by professionally qualified independent third parties based on the expected future cash flows arising from the underlying contractual relationships. The intangible assets will be amortised over 25 years from the date of commencement of commercial activity in accordance with the terms of the contracts to which they relate. Commercial activity has not yet commenced. In July 2010, National Iranian Oil Company (NIOC) introduced gas into its completed transmission network and Dana Gas' UGTC pipeline and SajGas processing facilities in Sharjah for commissioning purposes. However, subsequently as it pressured up, NIOC discovered significant leaks in its offshore gas transmission system which needs rectification. Notwithstanding this, Crescent Petroleum is continuing with international arbitration to seek a ruling on its binding 25 years gas supply contract with NIOC.

The Company was notified by Crescent Petroleum on 10 August 2014 that the Arbitral Tribunal has issued a Final Award on the merits, determining that the 25-year contract between it and NIOC is valid and binding upon the parties, and that NIOC has been in breach of its contractual obligation to deliver gas under the Contract since December 2005.

On 18 July 2016, the English High Court finally dismissed the National Iranian Oil Company (NIOCs) remaining grounds of appeal against the 2014 arbitration award. The 2014 arbitration award found in favour of Dana Gas' partner Crescent Petroleum Company International Limited and Crescent Gas Corporation Limited on all issues. NIOC appealed the 2014 arbitration award to the English High Court. Most of the grounds of appeal were previously heard and dismissed by the Court in March 2016. The finalisation of the appeal in July 2016 confirms that the 2014 award is final and binding and that NIOC has been in breach of its gas supply obligations since 2005.

Crescent Petroleum has informed Dana Gas that the final hearing of the remedies phase against NIOC for non-performance of the contract (including claims for damages and indemnities for third party claims) took place in November 2016. Due to a long post-hearing submissions timetable, the tribunal indicated that its award will likely be delivered in 2H of 2018.

In accordance with IAS 36 requirement relating to intangible assets not yet available for use, management had undertaken an impairment review of the intangible assets as at 31 December 2017. Management has reviewed the various inputs into the original valuation model and believes that the inputs into the original valuation model have not materially changed.

(c) Goodwill

Goodwill of US$308 million relates to the acquisition of Dana Gas Egypt (previously known as Centurion) in January 2007 which enabled Dana Gas to acquire the upstream business qualification and therefore the rights to development. The recoverable amount of the above cash-generating unit has been determined based on value in use calculation using cash flow projections approved by senior management up to a 20-year period or the economic limit of the producing field. The pre-tax discount rate applied to cash flow projections is 10% (2016: 10%). Cash flows are generated using forecasted production, capital and operating cost data over the expected life of each accumulation. Management believes that currently there is no reasonable change in assumptions used which would impact Goodwill.

Key assumptions used in value in use calculations

The calculation of value in use for the oil and gas interest is most sensitive to the following assumptions:

- financial returns;
- discount rates;
- oil prices; and
- production profiles.

Financial returns: Estimates are based on the unit achieving returns on existing investments (comprising both those that are currently cash flowing and those which are in exploration and development stage and which may therefore be consuming cash) at least in line with current forecast income and cost budgets during the planning period.

Discount rates: Discount rates reflect management's estimate of the risks specific to the above unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Oil prices: Management has used an oil price assumption based internal estimates and available market data for the impairment testing of its individual oil and gas investments.

Production profiles: Management has used its internally developed economic models of reserves and production as a basis of calculating value in use.

Sensitivity to changes in assumptions

The calculation for value in use for the oil and gas interest is most sensitive to the following assumptions:

- discount rate.

The Group generally estimates values in use for CGU using a discounted cash flow model. The future cash flows are discounted to their present value using a pre-tax discount rate of 10% (2016: 10%) that reflects current market assessments of the time value of money and the risks specific to the asset:

- crude oil price.

The future cash flows are sensitive to oil price. If the oil price forecast were to decrease by 20%, the impairment charge would have been higher by US$9 million for the year ended 31 December 2017.

Further any material change in financial returns, discount rates and productions profiles will also have an impact on the impairment charge.

13 Investment Property

The movement in investment property during the year is as follows:

	2017 US$ mm	2016 US$ mm
Balance at 1 January	**24**	25
Change in fair value	**–**	(1)
Balance at 31 December	**24**	24

Investment property consists of industrial land owned by SajGas, a subsidiary, in the Sajaa area of the Emirate of Sharjah, United Arab Emirates. The Group considers a portion of land to be surplus to their operational requirements and will be used for earning rentals or held for capital appreciation.

Investment property is stated at fair value which has been determined based on a valuation performed by an independent firm of qualified property consultants, with reference to comparable market transactions. The latest valuation exercise was carried out by the consultants as at 31 December 2017 and resulted in a valuation of US$24 million.

14 Interest in Joint Ventures

The following table summarises the statement of financial position of the joint ventures as at 31 December 2017:

	EBGDCO US$ mm	Gas Cities US$ mm	CNGCL US$ mm	Total US$ mm
Current assets	**13**	**–**	**–**	**13**
Non-current assets	**85**	**–**	**1**	**86**
Current liabilities	**(30)**	**(8)**	**(41)**	**(79)**
Non-current liabilities	**(52)**	**–**	**–**	**(52)**
Equity	**16**	**(8)**	**(40)**	**(32)**
Group's share of net assets	**6**	**(4)**	**(14)**	**(12)**

The following table summarises the income statement of the joint ventures for the year ended 31 December 2017:

	EBGDCO US$ mm	Gas Cities US$ mm	CNGCL US$ mm	Total US$ mm
Revenue	**26**	**–**	**–**	**26**
Profit/(Loss) before income tax	**2**	**–**	**(3)**	**(1)**
Profit/(Loss) for the year	**2**	**–**	**(3)**	**(1)**
Other comprehensive income	**–**	**–**	**–**	**–**
Total comprehensive profit/(loss) for the year	**2**	**–**	**(3)**	**(1)**
Group's share of profit/(loss) for the year	**1**	**–**	**(1)**	**–**

The Joint ventures had no other contingent liabilities or capital commitments as at 31 December 2017 and 2016 except as disclosed in note 30.

14 Interest in Joint Ventures continued

The following table summarises the statement of financial position of the joint ventures as at 31 December 2016:

	EBGDCO US$ mm	Gas Cities US$ mm	CNGCL US$ mm	Total US$ mm
Current assets	23	–	–	23
Non-current assets	86	–	1	87
Current liabilities	(38)	(8)	(38)	(84)
Non-current liabilities	(58)	–	–	(58)
Equity	13	(8)	(37)	(32)
Group's share of net assets	5	(4)	(13)	(12)

The following table summarises the income statement of the joint ventures for the year ended 31 December 2016:

	EBGDCO US$ mm	Gas Cities US$ mm	CNGCL US$ mm	Total US$ mm
Revenue	16	–	–	16
Loss before income tax	(3)	(1)	(3)	(7)
Loss for the year	(3)	(1)	(3)	(7)
Other comprehensive income	–	–	–	–
Total comprehensive loss for the year	(3)	(1)	(3)	(7)
Group's share of loss for the year	(1)	(1)	(1)	(3)

Reconciliation of summarised financial information

	EBGDCO US$ mm	Gas Cities US$ mm	CNGCL US$ mm	Total US$ mm
Opening net investment as of 1 January 2016	2	(3)	560	559
Investment during the year	4	–	–	4
Loss for the year	(1)	(1)	(1)	(3)
Net investment as of 31 December 2016	5	(4)	559	560
Profit/(Loss) for the year	1	–	(1)	–
Net investment as of 31 December 2017	**6**	**(4)**	**558**	**560**

Out of the total investment of US$560 million, investment of US$558 million relates to an interest in CNGCL which represents the fair value of the rights for the purchase and sale of gas and related products acquired by the Company through its 35% interest in CNGCL. The fair value of the rights acquired in 2005 was determined by reference to valuation exercises undertaken by professionally qualified independent third parties based on the expected future cash flows arising from the underlying contractual relationships.

Commercial activity in CNGCL has not yet commenced. In July 2010, National Iranian Oil Company (NIOC) introduced gas into its completed transmission network and Dana Gas' UGTC pipeline and SajGas processing facilities in Sharjah for commissioning purposes. However, subsequently as it pressured up, NIOC discovered significant leaks in its offshore gas transmission system which needs rectification. Notwithstanding this, Crescent Petroleum is continuing with international arbitration to seek a ruling on its binding 25-years gas supply contract with NIOC.

The Company was notified by Crescent Petroleum on 10 August 2014 that the Arbitral Tribunal has issued a Final Award on the merits, determining that the 25-year contract between it and NIOC is valid and binding upon the parties, and that NIOC has been in breach of its contractual obligation to deliver gas under the Contract since December 2005.

On 18 July 2016, the English High Court finally dismissed the National Iranian Oil Company (NIOCs) remaining grounds of appeal against the 2014 arbitration award. The 2014 arbitration award found in favour of Dana Gas' partner Crescent Petroleum Company International Limited and Crescent Gas Corporation Limited on all issues. NIOC appealed the 2014 arbitration award to the English High Court. Most of the grounds of appeal were previously heard and dismissed by the Court in March 2016. The finalisation of the appeal in July 2016 confirms that the 2014 award is final and binding and that NIOC has been in breach of its gas supply obligations since 2005.

Crescent Petroleum has informed Dana Gas that the final hearing of the remedies phase against NIOC for non-performance of the contract (including claims for damages and indemnities for third party claims) took place in November 2016. Due to a long post-hearing submissions timetable, the tribunal indicated that its award will likely be delivered in 2H of 2018.

15 Interest in Joint Operations

(a) Kurdistan Region of Iraq Project

On 30 August 2017, the Company announced the settlement of the International arbitration commenced on 21 October 2013 in the London Court of International Arbitration (LCIA) in relation to the Heads of Agreement on Khor Mor and Chemchemal fields on 4 April 2007 (HOA) between Dana Gas, Crescent Petroleum, Pearl Petroleum (the Consortium) and the Kurdistan Regional Government (KRG), (together the 'Parties').

The Parties have mutually agreed to fully and finally settle all their differences amicably by terminating the Arbitration and related court proceedings, and releasing all remaining claims between them, including the substantial damages asserted by the Consortium against the KRG; implementing a mechanism for settlement of US$2,239 million awarded by the Tribunal to date; and proceeding with immediate further development of the HoA's world class resources for mutual benefit as well as the benefit of the people of the Kurdistan Region and all of Iraq.

The agreed settlement highlights was as follows:

- The KRG to immediately pay Pearl a sum of US$600 million.
- The KRG to immediately pay Pearl a further of US$400 million to be dedicated for investment exclusively for the aforesaid further development to substantially increase production.
- Pearl will increase gas production at Khor Mor by 500 MMscf/day, a 160% increase on the current level of production (the 'Additional Gas'). The Additional Gas, together with significant additional amounts of condensate, is expected to begin production in approximately two years.
- The balance of sums awarded by the Tribunal (US$1,239 million) was no longer a debt owed by the KRG and was reclassified as outstanding recoverable by Pearl from future revenues generated form the HoA areas.
- The profit share allocated to Pearl from future revenues generated from the HoA areas were adjusted upwards to a level similar to the overall profit levels normally offered to IOCs under the KRG's Production Sharing Contracts. This adjustment reflected the larger investment risk and costs involved in the development of natural gas resources compared to oil developments.
- The Parties have clarified the Khor Mor block boundary coordinates and the KRG has awarded the Consortium investment opportunities in the adjacent blocks 19 and 20, and added these to the HoA areas, with commitments by the Consortium to make appraisal investments on these blocks, and developments if commercial oil and gas resources are found.
- The KRG will purchase 50% of the Additional Gas on agreed terms to boost the gas supply to power generation plants in the Kurdistan Region. The other 50% of the Additional Gas (250 mmscf/d) will be marketed and sold by Pearl to customers within Iraq or by export, or can be sold to the KRG as well to further boost power generation within Iraq.
- Pearl will also expand its local training and employment programmes towards achieving maximum localisation and content, as well as supporting local communities through its active Corporate Social Responsibility (CSR) programmes.
- The Parties have exchanged mutual releases, waivers, and discharges in relation to all the claims in relation to the Arbitration and related court proceedings.
- The Parties have also amended and clarified the HoA language and terms, including extension of the term of the Contract until 2049.

The Settlement Agreement with the KRG was welcomed and endorsed by Dana Gas, Crescent Petroleum, OMV and RWE, together holding 90% of the shares of Pearl Petroleum. MOL (a 10% shareholder of Pearl) unreasonably sought to link its endorsement of the settlement to a renegotiation of the terms by which it first secured its participation in Pearl back in May 2009 (namely its commitment to certain contingent payments) and now complains about Dana Gas and Crescent Petroleum for their handling of the settlement alongside Pearl, expressing dissatisfaction with the outcome as compared to the alternative of pursuing a final litigation and enforcement outcome against the KRG. MOL has issued a default notice under the terms of the Pearl Petroleum shareholders agreement alleging that the actions of Dana Gas and Crescent Petroleum in concluding the Settlement Agreement amounts to a breach of the Pearl Petroleum shareholders agreement.

Dana Gas and Crescent Petroleum reject the allegations and the default notice, and have been forced to initiate arbitration in The London Court of International Arbitration in order to obtain a formal declarations to resolve these matters. The hearing of these matters is scheduled for up to three weeks commencing in London on 26 November 2018.

15 Interest in Joint Operations continued

(a) Kurdistan Region of Iraq Project continued

The following amounts represent the Group's 35% share of the assets and liabilities of the joint operation:

	2017 US$ mm	2016 US$ mm
Assets:		
Non-current assets	**670**	254
Current assets	**177**	741
Total assets	**847**	995
Liabilities:		
Current liabilities	**37**	68
Net assets	**810**	927
Income	**98**	78
Operating cost	**(20)**	(18)
Depreciation	**(24)**	(17)
Gross profit	**54**	43

(b) UGTC/Emarat Joint Venture

The Group has a 50% interest in the UGTC/Emarat jointly controlled operations which own one of the largest gas pipelines in the UAE (48-inch diameter) with an installed capacity of 1,000 MMscfd, to transport gas in the Emirates of Sharjah from Sajaa to Hamriyah. The following amounts represent the Group's 50% share of the assets and liabilities of the Joint Operations:

	2017 US$ mm	2016 US$ mm
Assets:		
Non-current assets	**17**	18
Current assets	**32**	29
Total assets	**49**	47
Liabilities:		
Current liabilities	**–**	–
Net assets	**49**	47
Income	**4**	4
Operating cost	**(1)**	(1)
Depreciation	**(1)**	(1)
Gross profit	**2**	2

16 Inventories

	2017 US$ mm	2016 US$ mm
Spares and consumables	**58**	57
Less: provision for impairment of inventory	**(8)**	(8)
	50	49

17 Trade and Other Receivables

	2017 US$ mm	2016 US$ mm
Trade receivables (net)	**239**	982
Prepaid expenses	**2**	3
Due from joint ventures	**20**	22
Other receivables	**31**	26
Less: provision for impairment of other receivables	**(7)**	(7)
	285	1,026

a) Trade receivables are interest-bearing and are generally on 30-60 days credit period.

b) The Group's share of trade receivables in Pearl Petroleum is in respect of condensate and LPG deliveries amounting to US$7 million (31 December 2016: US$713 million).

As at 30 August 2017, the Group share of trade receivable from KRG amounted to US$695 million. Pursuant to the Settlement Agreement with the KRG dated 30 August 2017, KRG settled the receivable by payment of US$1 billion (DG Share: US$350 million) in cash with the residual receivable being converted to petroleum cost and reclassified to Oil and Gas interest under 'property, plant and equipment'.

c) The ageing analysis of trade receivables is as follows:

			Past due but not impaired				
	Total US$ mm	Neither past due nor impaired US$ mm	<30 days US$ mm	30-60 days US$ mm	61-90 days US$ mm	91-120 days US$ mm	>120 days US$ mm
2017	**239**	**92**	**8**	**–**	**2**	**16**	**121**
2016	982	46	36	3	26	74	797

18 Financial Assets at Fair Value Through Profit or Loss

	2017 US$ mm	2016 US$ mm
Balance at 1 January	**9**	8
Change in fair value	**–**	1
Balance at 31 December	**9**	9

This represents an investment in the Abraaj Infrastructure fund. The valuation is based on the latest indicative fair value of the fund as of 31 December 2017.

The Group has not made any investments in shares and stock during the year ended 31 December 2017 and 31 December 2016.

19 Funds Held for Development

As part of the Settlement Agreement with the KRG (refer note 15), out of the US$1 billion received from KRG (DG Share: US$350 million), an amount of US$400 million (DG Share: US$140 million) is dedicated for investment exclusively for further development to substantially increase production in Kurdistan Region of Iraq. Pearl is entitled to use any funds remaining in that account after the said development is complete or 29 February 2020, whichever occurs first. If to the reasonable satisfaction of the KRG, Pearl secures financing for all or part of the development specified in the agreement, Pearl shall be entitled to use funds from this US$400 million (DG Share: US$140 million) in the same amount as such financing without restriction.

20 Cash and Bank Balance

	2017 US$ mm	2016 US$ mm
Cash at bank and on hand		
– Local banks within UAE	**42**	37
– Foreign banks outside UAE	**6**	7
Short-term deposits		
– Local banks within UAE	**560**	248
– Foreign banks outside UAE	**–**	–
Cash and cash equivalent	**608**	292
Deposit (Murabaha facility)	**–**	10
Cash and Bank Balance	**608**	302

Cash at bank earns profit at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one week and three months, depending on the immediate cash requirements of the Group, and earn profit at the respective short-term deposit rates. The fair value of cash and bank balance including short-term deposits is US$608 million (2016: US$302 million). The effective profit rate earned on short-term deposits ranged 0.95% to 2.5% (2016: 0.3% to 9.0%) per annum. As at 31 December 2017, 99% (31 December 2016: 94%) of cash and bank balance were held with UAE banks and the balance held outside UAE. Out of the total cash and bank balance of US$608 million, 0.5% of the amount was held in Egyptian pounds (31 December 2016: 5%).

Deposit (Murabaha facility) was EGP pledged with Mashreq Bank PSC, Egypt branch against fully secured facility of US$25 million. On 9 April 2017, the loan amount was fully settled and the pledged EGP deposit was released.

21 Share Capital

`	2017 US$ mm	2016 US$ mm
Authorised:		
9,000,000,000 common shares of AED1 each (US$0.2728 each)		
Issued and fully paid up:		
6,976,623,422 (2016: 6,968,616,114) common shares of AED1 each (US$0.2728 each)	**1,903**	1,901

22 Statutory and Legal Reserve

	Statutory reserve US$ mm	Legal reserve US$ mm
At 1 January 2016	108	108
Transfer from net profit for the year	–	–
At 31 December 2016	108	108
Transfer from net profit for the year	8	8
At 31 December 2017	**116**	**116**

a) Statutory reserve

In accordance with the U.A.E. Federal Law No. (2) of 2015, the Group has established a statutory reserve by appropriation of 10% of the Group's net profit for each year. The allocation will cease by the decision of the Ordinary General Assembly as recommended by the Board of Directors or when the reserve equals 50% of the Company's paid up capital. This reserve is not available for distribution, except as stipulated by law.

b) Legal reserve

As per the Article of Association of the Company, 10% of the Group's net profit for each year will be allocated to Legal reserve. Such allocation will cease when the total reserve equals 50% of the Company's paid up capital.

23 Other Reserves

	Share based reserve US$ mm	Fair value reserve US$ mm	Total US$ mm
At 1 January 2016	2	–	2
Share-based reserve (note 24)	1	–	1
At 31 December 2016	3	–	3
Share-based reserve (note 24)	2	–	2
Transfer from retained earnings	1	–	1
Shares issued to employees	(2)	–	(2)
At 31 December 2017	**4**	**–**	**4**

24 Share-Based Payment

The Company operates a restricted shares plan details of which are as follows:

Restricted shares

Awards under this plan are generally subject to vesting over time, contingent upon continued employment and to restriction on sale, transfer or assignment until the end of a specified period, generally over one to three years from date of grant. All awards may be cancelled if employment is terminated before the end of the relevant restriction period. The Group determines fair value of restricted shares unit based on the numbers of unit granted and the grant date fair value.

The charge recognised in the consolidated income statement under share based payment plans is shown in the following table:

	2017 US$ mm	2016 US$ mm
Expense arising from equity-settled share-based payment transactions	**2**	1

25 Borrowings

	2017 US$ mm	2016 US$ mm
Non-current		
Bank Borrowings – Zora Gas Field Project Finance (a)	**–**	39
Equipment loan (b)	**10**	12
Egypt Building loan (c)	**9**	11
	19	62
Current		
Bank borrowings – Zora Gas Field Project Finance (a)	**–**	27
Bank borrowings – Murabaha facility	**–**	12
Equipment loan (b)	**2**	1
Egypt building loan (c)	**2**	1
	4	41
Total borrowings	**23**	103

a) Bank borrowings – Zora Gas Field Project Finance

	2017 US$ mm	2016 US$ mm
Loan facility	**66**	91
Less: Repayment during the year	**(67)**	(26)
Add: Amortisation of loan arrangement fees	**1**	1
Net loan facility	**–**	66

On 25 June 2014, Dana Gas Explorations FZE (100% subsidiary of Dana Gas PJSC) entered into a Common Terms Agreement with Emirates NBD Bank, Commercial Bank International, Commercial Bank of Dubai and Barwa Bank (Lenders) for a US$100 million Term Facility for the Zora Field Development Project.

The loan was settled in full on 2 May 2017 in accordance with the terms and condition of the facility agreement.

25 Borrowings continued

b) Equipment loan

Dana Gas Egypt (DGE) entered into a 'Sale and Lease back' finance lease arrangement with Corporate Leasing Company Egypt SAE on 29 January 2015, for certain inventory equipment (casings, wellheads, piping etc.) that belong to DGE that have not been used to date. The total facility consisting of three contracts amounts to US$12.6 million and have been fully drawn down up to 30 June 2015. After the full draw down, an additional contract of US$1.1 million (note 25c) was added to the facility thereby increasing the facility to US$13.7 million. The payments are over a period of 29 quarters commencing from Quarter 3 2015 including grace period of two quarters for interest and principal. As of the reporting date, the amount outstanding toward principal is US$12 million.

c) Egypt building loan

Pearl Properties Egypt (PPE) has entered into a 'Sale and Lease back' finance lease arrangement for Egypt Building with Corporate Leasing Company Egypt SAE on 9 June 2015. The total facility originally consisted of three contracts amounting to US$13.8 million which was reduced by US$1.1 million to US$12.7 million. The facility was fully drawn down up to 30 April 2016. The payments are over a period of 29 quarters including grace period of two quarters for lease payments. As of the reporting date, the amount outstanding toward principal is US$11 million.

26 Capital Received on Issuance of Sukuk

As at 30 June 2017, Capital Received on Issuance of Sukuk amounting to US$700 million was reclassified from Borrowings. Legal advice received from independent legal advisers states that the terms of the Company's Sukuk Al Mudarabah are unlawful under UAE law and are not compliant with Shari'a principles and therefore are void and unenforceable. Accordingly, the Company instituted legal action in UAE court for declaration to that effect seeking liquidation of the Mudarabah and a reconciliation of the amounts paid.

Initially, the Company offered to roll over the Sukuk in accordance with a new instrument fully compliant with UAE law and on commercial terms that take into consideration current market conditions and the considerable improvement in the Company's assets value and financial position, which was declined by a Sukukholders' Ad Hoc Committee consisting of Blackrock and Goldman Sachs.

On 15 February 2018, the UK High Court ordered that the outstanding UAE law issues relating to the validity of the Mudarabah Agreement, and any consequent reconciliation are matters that should be heard and determined in the UK. Additionally, that the Company should take steps from 29 March 2018 to discontinue the legal proceedings currently pending in the Sharjah Court. The Company has filed applications for permission to appeal against these orders to the UK Court of Appeal.

External legal counsel have advised the Company that the outcome of the ongoing litigation finally in UAE court could result in a significant liability for the Sukuk holders to repay the Company excess 'on account profit payments' based on a lawful reconciliation of the transaction. The Company up to 30 April 2017 has made total on account profit payments of US$635 million to the Sukuk holders since January 2008.

The Company, in line with detailed public disclosures that it has made to the Securities and Commodities Authority (SCA) and through ADX, is pursuing the litigation route to resolve the matter and is confident pursuant to independent legal advice of prevailing in its interpretation of the outcome.

The unlawful nature of the current Sukuk and the ongoing litigation process raise a number of accounting issues which may have a material impact on the carrying value of certain assets and liabilities on the statement of financial position. Management and the Directors will carefully review these with the external auditors on an ongoing basis.

Background

In October 2007, the Group arranged to issue convertible Sukuk-al-Mudarabah (the 'Sukuk') for a total value of US$1 billion in the form of Trust Certificates through a special purpose company (the 'Issuer'). The Sukuk, which were intended to conform to the principles of Islamic Shari'a, were approved by the Company's shareholders at an Extraordinary General Meeting held in July 2007. Pursuant to the terms of the Sukuk, the proceeds were applied to the acquisition and development of assets (the 'Mudarabah Assets') owned by Dana LNG Ventures Limited. The Sukuk had a profit rate of 7.5% per annum to be paid quarterly from profits generated by the Mudarabah Assets. In 2008, Dana Gas purchased Sukuk from the market with an aggregate value of US$80 million.

The Sukuk matured on 31 October 2012. On 23 April 2013, the Sukuk holders (by Extraordinary Resolution passed at a meeting of Holders) and the Company's shareholders (by EGM) approved the Sukuk refinancing Transaction. The salient features of the agreement were a reduction in the capital received on issuance of Sukuk from US$1 billion to US$850 million via US$70 million of cash pay-down and cancellation of another US$80 million of the existing Sukuk already owned by the Company. The remaining US$850 million was split into two tranches being a US$425 million ordinary Sukuk and US$425 million exchangeable Sukuk (together the 'New Sukuk'), each with five-year maturity. The ordinary Sukuk and exchangeable Sukuk have a profit rate of 9% and 7% per annum, respectively, to be paid quarterly from profits generated by the Mudarabah Assets. The initial effective exchange price for the exchangeable Sukuk was determined on 13 February 2013 and was fixed at AED0.75 per share (floor price).

The New Sukuk are secured against the shares of Dana LNG Ventures Limited (BVI), Sajaa Gas Company Limited (Sharjah) and United Gas Transmission Company Limited (Sharjah). In addition to the above, the security package available to holders of the new Sukuk was enhanced by US$300 million of value comprising security over certain receivables of the Company's Egyptian assets, Company's interest in Danagaz W.L.L. and Sajaa Gas industrial land.

During the previous years the Company bought back Sukuk amounting to US$77.4 million and a further US$72.9 million worth of Sukuk was converted into shares of Dana Gas PJSC. The outstanding Sukuk is US$700 million.

27 Provisions

	2017 US$ mm	2016 US$ mm
Asset decommissioning obligation	**12**	9
Employee's end of service benefits	**2**	2
	14	11

The movement in asset decommissioning obligation during the year relates to unwinding of discount, change in discount and exchange rate and payment related to decommissioning liability.

28 Trade Payables and Accruals

	2017 US$ mm	2016 US$ mm
Trade payables	**38**	43
Accruals and other payables	**124**	76
Advance against local sales in KRI	**16**	9
	178	128

29 Provision for Surplus Over Entitlement (net)

	2017 US$ mm	2016 US$ mm
Surplus over Entitlements (note 29a)	**–**	114
Less: Interest receivable on overdue invoices (note 29b)	**–**	(67)
Less: Other receivables	**–**	(6)
	–	41

a) Surplus over entitlements

As per the terms of the Petroleum Development Agreement, Pearl takes title to all petroleum produced and accordingly recognises 100% revenue from the sale of condensate and LPG. From such revenue received in cash, Pearl is entitled to retain the petroleum costs and remuneration fee as per the Petroleum Development Agreement ('Entitlements') and any residual amount is to be paid to the KRG ('Surplus'). The right under the Petroleum Development Agreement to receive such revenue in full was upheld by the Arbitration Tribunal in its second Partial Final Award dated 27 November 2015.

On an accruals basis, the cumulative revenue recognised by Pearl as at 31 December 2016 exceeded its net Entitlements under the Petroleum Development Agreement, if all invoices and outstanding receivables were to be paid by the KRG in an amount of US$326 million (DG Share 35%: US$114 million). This notional Surplus was only due on the assumption that all the outstanding liquid petroleum invoices as at 31 December 2016 had been paid in full by the KRG as of that date, which they had not.

Furthermore, Pearl has a right under the terms of the Authorisation to offset this Surplus, when payable, against any other outstanding payments due from the KRG. Accordingly, as at 31 December 2016, the aforementioned Surplus has been reduced by other outstanding amounts due from KRG, the net result being that a net amount of US$117 million (DG Share 35%: US$41 million) would be repayable to the KRG, even if the entire amount of US$2.04 billion (DG Share 35%: US$713 million) in outstanding receivables to Pearl by 31 December 2016 were to be settled in full.

29 Provision for Surplus Over Entitlement (net) continued

a) Surplus over entitlements continued

Pursuant to the Settlement Agreement dated 30 August 2017, an amount of US$1 billion was paid in cash by the KRG and the residual debt of US$1.24 billion (including interest and transportation costs receivable) was converted to petroleum cost under the Petroleum Development Agreement (see note 15). Post this conversion of the residual debt to petroleum costs, Pearl is again in a cost recovery mode wherein Pearl is yet to recover its full Entitlement under the Petroleum Development Agreement. Accordingly, the provision for Surplus over Entitlement of US$260 million (DG Share 35%: US$91 million) as of 30 August 2017 is no longer required and has been fully reversed to the income statement.

b) Interest and other receivable from KRG (net)

Pearl Petroleum ('Pearl') is contractually entitled to charge interest cost on overdue receivables due from KRG. Previously, without giving up its contractual entitlement to actual interest costs, Pearl invoiced interest on overdue KRG invoices at the rate of LIBOR plus 2%. In the absence of settlement of overdue invoices, Pearl decided to invoice by applying 9% interest (quarterly compounded) on 50% of the total overdue receivables, while the remaining 50% overdue receivables were subject to an interest rate of LIBOR plus 2% which is the minimum specified under the Authorisation.

As part of the Third Award received on 13 February 2017 the Tribunal ruled that Pearl is entitled to interest on overdue receivable at LIBOR plus 2% compounded monthly. Based on the above, Dana Gas share (35%) of the total interest on overdue receivables (for condensate and LPG sales and transportation costs paid on behalf of KRG) from KRG as at 31 December 2016 stood at US$67 million.

Pursuant to Settlement Agreement with the KRG dated 30 August 2017, total interest at LIBOR plus 2% compounded monthly on overdue receivables from KRG (towards liquids sales and transportation costs paid on behalf of KRG) amounting to US$237 million (DG Share 35%: US$83 million) as on 30 August 2017 has been converted to petroleum cost. For the purposes of these financial statements, this amount has been recorded as Oil & Gas Properties and included under Property, plant & equipment. At 31 December 2017, no interest is receivable from KRG.

30 Contingencies and Commitments

Dana Gas Egypt

In March 2006, Dana Gas Egypt entered into an agreement with CTIP Oil and Gas Limited (CTIP) to acquire a 25% percent working interest in the West El Manzala and West El Qantara Concessions. Following the closing of this acquisition, the Company held a 100% participating interest in each of these Concessions. As agreed under the terms of the said acquisition agreement Dana Gas Egypt has paid US$13 million as a result of the first Government approved plan of Development in the West El Manzala Concession. In addition, Dana Gas Egypt has agreed to pay additional payments that could total up to a further US$12.5 million as and when total Proved Reserves for both El Manzala and West El Qantara concessions collectively and in the aggregate exceeds 1 trillion cubic feet of natural gas. Dana Gas Egypt has also granted a 3% net profits interest to CTIP on future profit from the Concessions.

In April 2013, Dana Gas Egypt was awarded a 100% working interest in the North El Arish Offshore (Block 6) concession area. The area is located offshore Nile Delta, in the eastern part of the Mediterranean Sea. As per the concession agreement, Dana Gas Egypt has committed to spend US$25.5 million on the block during the first phase of exploration which is four years and expired on 11 February 2018. Dana Gas Egypt is granted a one-year extension for the first phase of exploration till 10 February 2019. To-date Dana Gas Egypt has spent circa. US$14.7 million out of the total commitment.

In October 2014, Dana Gas Egypt was awarded a 100% working interest North El Salhiya (Block 1) concession area. The area is located in Nile delta next to DGE existing development leases. As per the concession agreement, Dana Gas Egypt has committed to spend US$20 million on the block during the first phase of exploration which is three years and expired on 14 January 2018. Dana Gas Egypt is granted a six-month extension for the first phase of exploration till 14 July 2018. To date Dana Gas Egypt has spent c. US$7.5 million out of the total commitment.

In October 2014, Dana Gas Egypt was also awarded El Matariya (Block 3) onshore concession area in the Nile Delta. Dana Gas Egypt with BP Exploration (Delta) Limited 'BP' as partner and operator will participate in the concession on a 50:50 basis. Dana Gas Egypt and BP have committed to spend US$60 million on the block during the first phase of exploration which is three years. As per the terms of the agreement with BP, BP will fund all of the cost (including Dana Gas's share) of the first exploration well up to an agreed maximum limit. BP also has the option to acquire 50% in the deep potential of some of Dana Gas' adjacent Development leases. The Mocha-1 and West Ward Delta-2 exploration wells were drilled during the first exploration phase. Dana Gas Egypt and BP elected to carry on with the block for the second phase of exploration with commitment to spend US$15 million during three years. The Mocha-1 and West Ward Delta-2 wells drilling costs have fulfilled the spend commitment of first and second phases of exploration.

31 Related Party Disclosures

Transactions with related parties which are conducted at arm's length included in the consolidated income statement are as follows:

	2017		2016	
	Revenues US$ mm	Fees for management services US$ mm	Revenues US$ mm	Fees for management services US$ mm
Joint arrangement	**1**	**2**	1	2
Major shareholder	**–**	**1**	–	–
	1	**3**	1	2

During 2017, an amount of US$1.5 million was paid to the Directors as compensation for Committee work and special assignment undertaken during the year. The remuneration to the Board of Directors for the year 2016 has been disclosed in the consolidated statement of changes in equity.

Compensation of key management personnel

The remuneration of members of key management during the year was as follows:

	2017 US$ mm	2016 US$ mm
Short-term benefits	**5**	5
Restricted shares	**1**	1
	6	6

32 Financial Risk Management Objectives and Policies

Financial risk factors

The Group's principal financial liabilities comprise borrowings, decommissioning obligations (provisions), trade payables, other payables and due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

(a) Foreign currency risk

The Group is exposed to material foreign currency risks in relation to its cash balance in Egyptian pounds held in Egypt with local banks.

At 31 December 2017, if the Egyptian pounds had strengthened/weakened by 10% against the US$ with all other variables held constant, total comprehensive profit for the year would have been US$0.3 million higher/lower (2016: US$2 million), as a result of foreign exchange gains/losses on translation of Egyptian pounds denominated cash and bank balance.

(b) Profit rate risk

The Group has minimal exposure to profit rate risk on bank deposits.

(c) Commodity price risk

The Group is also exposed to commodity price risk (crude oil price), however this has been partially mitigated due to fixed pricing agreement in Egypt & UAE for sale of natural gas which constitute approximately 45% (2016: 49%) of the Groups gross revenue. At 31 December 2017, if the average price of crude oil for the year had increased/decreased by 10% with all other variable held constant the Group's total comprehensive profit for the year would have been US$15 million higher/lower (2016: US$13 million).

(d) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from trade receivables and bank balances.

(i) Trade receivables

The trade receivables arise from its operations in UAE, Egypt and Kurdistan Region of Iraq. The requirement for impairment is analysed at each reporting date on an individual basis for major customers. As majority of the Group's trade receivable are from Government-related entities no impairment was necessitated at this point. The maximum exposure to credit risk at the reporting date is the carrying amount as illustrated in note 17.

32 Financial Risk Management Objectives and Policies continued

Financial risk factors continued

(d) Credit risk continued

(ii) Bank balances

Credit risk from balances with banks and financial institutions is managed by Group's Treasury in accordance with the Group policy. Investment of surplus funds is made only with counterparties approved by the Group's Board of Directors. The Group's maximum exposure to credit risk in respect of bank balances as at 31 December 2017 is the carrying amount as illustrated in note 20.

(e) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings, trade payables and other payables. The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments:

Year ended 31 December 2017

	Less than 1 month US$ mm	Less than 1 year US$ mm	1 to 5 years US$ mm	>5 years US$ mm	Total US$ mm
Capital received on issuance of Sukuk*	**–**	**700**	**–**	**–**	**700**
Borrowings (including profit)	**–**	**5**	**21**	**1**	**27**
Trade payables and accruals	**–**	**178**	**–**	**–**	**178**
Provisions	**–**	**–**	**6**	**8**	**14**
	–	**883**	**27**	**9**	**919**

Year ended 31 December 2016

	Less than 1 month US$ mm	Less than 1 year US$ mm	1 to 5 years US$ mm	>5 years US$ mm	Total US$ mm
Capital received on issuance of Sukuk	–	756	–	–	756
Borrowings (including profit)	–	46	68	1	115
Trade payables and accruals	–	128	–	–	128
Provisions	3	–	6	8	17
	3	930	74	9	1,016

* Please refer note 26.

Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016. Capital comprises share capital, retained earnings, other reserves and equity component of convertible bonds, and is measured at US$2,634 million as at 31 December 2017 (2016: US$2,565 million).

33 Fair Value Estimation

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount 2017 US$ mm	**Fair value 2017 US$ mm**	Carrying amount 2016 US$ mm	Fair value 2016 US$ mm
Financial assets				
Trade and other receivables	**285**	**285**	1,026	1,026
Cash and short-term deposits	**608**	**608**	302	302
Financial liabilities				
Capital received on issuance of Sukuk	**700**	**700**	700	700
Borrowings	**23**	**23**	103	103
Trade payables and accruals	**178**	**178**	128	128

The fair value of borrowings is the amortised cost determined as the present value of discounted future cash flows using the effective interest rate.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

The following table presents the Group' assets that are measured at fair value on 31 December 2017:

	Level 1 US$ mm	**Level 2 US$ mm**	**Level 3 US$ mm**	**Total US$ mm**
Assets				
Financial assets at fair value through profit or loss	**–**	**9**	**–**	**9**
Investment property	**–**	**–**	**24**	**24**
Total	**–**	**9**	**24**	**33**

The following table presents the Group' assets that are measured at fair value on 31 December 2016:

	Level 1 US$ mm	Level 2 US$ mm	Level 3 US$ mm	Total US$ mm
Assets				
Financial assets at fair value through profit or loss	–	9	–	9
Investment property	–	–	24	24
Total	–	9	24	33

There have been no transfers between Level 1 and Level 2 during the years 2017 and 2016.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

34 Financial Instruments By Category

	Loans & receivables US$ mm	Assets at fair value through the profit and loss US$ mm	Available-for-sale financial asset US$ mm	Total US$ mm
31 December 2017				
Assets as per Statement of Financial Position				
Trade and other receivables excluding pre-payments	**283**	**–**	**–**	**283**
Financial assets at fair value through profit or loss	**–**	**9**	**–**	**9**
Cash and bank balance	**608**	**–**	**–**	**608**
Total	**891**	**9**	**–**	**900**

	Liabilities at fair value through the profit and loss US$ mm	Derivatives used for hedging US$ mm	Other financial liabilities at amortised cost US$ mm	Total US$ mm
31 December 2017				
Liabilities as per Statement of Financial Position				
Capital received on issuance of Sukuk	**–**	**–**	**700**	**700**
Borrowings	**–**	**–**	**23**	**23**
Provisions	**–**	**–**	**14**	**14**
Trade payable and accruals excluding statutory liabilities	**–**	**–**	**178**	**178**
Total	**–**	**–**	**915**	**915**

	Loans & receivables US$ mm	Assets at fair value through the profit and loss US$ mm	Available-for-sale financial asset US$ mm	Total US$ mm
31 December 2016				
Assets as per Statement of Financial Position				
Trade and other receivables excluding pre-payments	1,023	–	–	1,023
Financial assets at fair value through profit or loss	–	9	–	9
Cash and bank balance	302	–	–	302
Total	1,325	9	–	1,334

	Liabilities at fair value through the profit and loss US$ mm	Derivatives used for hedging US$ mm	Other financial liabilities at amortised cost US$ mm	Total US$ mm
31 December 2016				
Liabilities as per Statement of Financial Position				
Capital received on issuance of Sukuk	–	–	700	700
Borrowings	–	–	103	103
Provisions	–	–	11	11
Trade payable and accruals excluding statutory liabilities	–	–	128	128
Total	–	–	942	942

35 Social Contributions

As part of the Corporate Social Responsibility Initiatives, the Group spent US$337,900 (2016: US$68,250) during the year.

Glossary

US$	United States of America Dollars
AED	United Arab Emirates Dirham
Bcf	Billion Standard Cubic Feet
MMboe	Millions of Barrels of Oil Equivalent
bpd	Barrels per Day
boepd	Barrels of Oil Equivalent per Day
MMBbl	Millions of Barrels
kboepd	Thousand Barrels of Oil Equivalent per Day
Tcf	Trillion Cubic Feet
MMscfd	Millions of Standard Cubic Feet per Day
Tpd	Tonnes Per Day
KRG	Kurdistan Regional Government
KRI	Kurdistan Region of Iraq
DGE	Dana Gas Egypt

Gas is converted to barrels of oil equivalent using a conversion factor of 6,000 standard cubic feet per barrel.

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