Dana Gas reports a 77% increase in its H1 2017 Profit

Sharjah, UAE; 15 August 2017: Dana Gas PJSC ("Company"), the Middle East's largest regional private sector natural gas company, today announced its financial results for the half-year and second quarter ended 30 June 2017.

Highlights:

- H1 gross revenue of $222m, up 25% (H1 2016: $178m)
- H1 net profit of $23m, up 77% (H1 2016: $13m)
- H1 average production was 67,550 boepd, 6% higher (H1 2016: 63,700 boepd)
- Successful completion of planned shutdown at El Wastani gas plant, clean HSSE record
- Further optimising costs: H1 - OPEX lower 7% to $25m, G&A steady at $7m
- Collected $198m, including $110m industry payment in Egypt
- Second condensate sale concluded in July

Dr Patrick Allman-Ward, CEO, Dana Gas, said:

"I am pleased to report a solid set of operational and financial figures for the first-half of 2017. We posted higher revenue and nearly doubled our net profit to $23 million. We maintained strong production numbers by adding a further 13% output in Egypt despite the planned shutdown of the El Wastani Gas Plant, which was completed successfully and without incident. Furthermore, we have plans to drill three exploration wells on Block 1 in Egypt in Q4 as part of our concession activity commitment. We remain excited about the potential for medium to long-term growth but also recognise the need to manage the short-term cash collection challenges until we recover affirmed receivables and thereby realise the enormous value of our assets."

Financials

In the first half 2017, Dana Gas reported gross revenues of $222 million and net profit of $23 million as compared to $178 million and $13 million respectively in H1 2016. During the second quarter 2017, the Company reported gross revenues of $104 million and a net profit of $12 million as compared to $96 million and $7 million respectively in Q2 2016.

The solid increase in the half-year profitability is based on several factors: firstly, a 25% increase in gross revenue; secondly, an increase in the profit entitlement from Kurdistan Region of Iraq (KRI); thirdly, the positive impact of the cost management program, which further optimised operating costs by 7%; fourthly, a $5 million increase in other income segment and lastly, a reduction in finance costs by $8 million as a result of settling Zora and other loans during the period. However, this increase was partly offset by a reduction in investment and finance income.

In the first half, OPEX dropped 7% to $25 million and G&A remained steady at $7 million. CAPEX was down 84% to $13 million as the Company continued to balance capex with available sources of cash.

Average realised prices in H1 were $40 per barrel of oil equivalent (boe) versus $30 per boe in H1 2016, boosting revenue across the portfolio.

Total average group production was 67,550 barrels of oil equivalent per day (boepd) in the first half 2017, 6% higher compared to H1 2016. The increase in production was driven by higher output in Egypt, up 13% and consistent performance in KRI.

The Company generated $142 million in free cash flow in the half-year, principally due to an industry payment from the Egyptian government of $110 million. However, the Company has financial commitments of $60 million in Egypt that have accumulated during the last 18 months of drilling activity related to GPEA investment program that need to be repaid. Furthermore, the Company has plans to drill three exploration wells on Block 1 in Egypt in Q4 as part of its concession activity commitment.

Collections were strong in the first half 2017. Our collection rate in Egypt and KRI, for the first half 2017, was 229% and 115% respectively. The Company collected $198 million, the bulk of which came from Egypt at $135 million. KRI and UAE was $55 million and $8 million respectively. Due to the higher collections during the first-half 2017, the current cash balance, as at 30 June 2017 increased to $337 million, up from $302 million at year-end 2016 and the total trade receivable balance fell to $900 million at the period end as compared to $982 million at the end of December 2016.

Country Update

Egypt

Dana Gas Egypt's production output was 13% higher on a half-yearly comparable basis, 39,300 versus 34,850 boepd. The Company recorded a 3% jump in quarterly production, 37,650 boepd in Q2 2017 versus 36,550 boepd in Q2 2016.

The planned shutdown of the El Wastani Gas Plant was successfully completed in June 2017. There was a complete shutdown for five days for critical inspection and maintenance and a further partial shutdown for four days. The work was conducted by Egyptian contractors and the work was concluded with no recordable incidents or environmental spills, reflecting an excellent HSSE performance. The shutdown was necessary for the Company to improve plant performance and allow it to maintain production at just under 40,000 barrels per day until the end of the year.

The Company has started preparation work on the 100%-owned North El Salhiya (Block 1) concession for its drilling campaign in quarter four 2017. Three onshore wells will be drilled: North El Basant, ESAEN-1 and Bahy-2. Any exploration success and future production can be easily monetised through the existing infrastructure in place. Work is also progressing regarding the North El Arish (Block 6) offshore concession in the Eastern Nile Delta, with drilling scheduled for early 2018.

A second Wastani condensate cargo was sold internationally in July, following on from the first cargo sale in April. These cargos are a direct result of the Gas Production Enhancement Agreement put in place with the relevant Egyptian government agencies in August 2014. The cargo was 157,000 barrels at a total price of US$ 7.0 million.

Kurdistan Region of Iraq

The Company's 35% share of gross production for H1 and Q2 2017 was 25,900 boepd and 25,400 boepd respectively, similar to what was produced in H1 and Q2 2016. A planned shutdown for maintenance work is due to take place in the second half 2017.

UAE

H1 2017 average daily production from the Zora Gas Field declined to 1,700 boepd as compared to 2,300 in H1 2016.

The field is currently delivering approximately 10 mmscfd sales gas to a Sharjah power station and producing 100 bbl/day of condensate. Production has continued to decline from 3,250 boepd in June 2016 to 1,650 boepd by the end of the second quarter this year.

The Company has received the preliminary results on its potential well intervention program which indicates that at current gas prices any further well intervention in unlikely to be economically viable. These results and will be taken into consideration when the Company undertakes its annual reserves evaluation towards year-end and will be factored into the final decision that will have to be taken on the asset.

Sukuk Restructuring Discussions

Legal advice received from independent legal advisers at the end of May stated that the terms of the Sukuk are not compliant with Shari'a principles and are unlawful under the laws of the UAE and therefore are void and unenforceable. The final outcome of the ongoing litigations in UAE courts would likely result in a significant liability for the Sukukholders to repay the Company excess 'on account profit payments' based on a lawful reconciliation of the matter. 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.

Arbitration

The Company continues to wait for the final judgement regarding the NIOC damage claims and this is now expected towards the end of 2017 or in the first half of next year.

The Company continues to press ahead with recovering the money owed to it from the Kurdistan Regional Government for the second and third Partial Final Awards. It has also prepared for the final damages claim that will be heard in London in September.

Dana Gas is confident that it will realise significant value resulting from these arbitrations, whether through settlement and/or enforcement of the awards.

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About Dana Gas

Dana Gas is the Middle East's first and largest regional private sector natural gas Company established in December 2005 with a public listing on the Abu Dhabi Securities Exchange (ADX). It has exploration and production assets in Egypt, Kurdistan Region of Iraq (KRI) and UAE, with 2P reserves exceeding one billion boe and average production of 67,050 boed in 2016. With sizeable assets in Egypt, KRI and the UAE, and further plans for expansion, Dana Gas is playing an important role in the rapidly growing natural gas sector of the Middle East, North Africa and South Asia (MENASA) region. Visit: www.danagas.com

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