H1 2018

Financial Results – Investor Presentation Script

Operator:

Thank you, ladies and gentlemen, for joining us today for the Dana Gas first half 2018 results conference call.

I will now hand you over to Mohammed Mubaideen, Head of Investor Relations, to introduce the call.

Mohammed Mubaideen:

Thank you. Welcome to the Dana Gas H1 2018 results call. With me are CEO, Dr. Patrick Allman-Ward; CFO, Chris Hearne, and; our Technical Director and General Manager, UAE, Iman Hill.

The presentation for today's call can be found on our website – www.danagas.com. After the presentation there will be a Q&A session, as usual.

Before moving on, we would like to draw your attention to our disclaimer on slide two, which we encourage you to read carefully.

I will now hand over the call to our CEO, Dr Patrick Allman-Ward to start the presentation.

Patrick Allman-Ward – Chief Executive Officer

Thank you, Mohammed, and welcome everyone to our half-year 2018 earnings call.

Before we begin with the financial review, I would like to take a moment to say a few words on the recent Sukuk restructuring and how very pleased we all are with the outcome.

As has been announced, our restructuring has been completed with the issuance and listing of a new Sukuk. I firmly believe that the new sukuk represents a fair and consensual deal for the benefit of all our stakeholders. The deal was approved by sukuk- and shareholder votes of more than 90% in favour with no one voting against. It is a ringing endorsement of the Company that the overwhelming majority of Sukukholders chose to remain invested with the Company - out of the outstanding Sukuk of $700 million only $37 million chose to cash out. Furthermore, the new instrument has a new 4%

coupon which will allow us to save $35 million per annum on Sukuk financing. Chris will talk about some of the details of the new Sukuk later.

The Management team and the Company as a whole now look forward to moving on with developing our world-class portfolio of assets in the Kurdistan Region of Iraq and Egypt.

I will ask you now to turn to slide 5 where I will begin with a **Financial** overview before discussing our operations.

For purposes of clarity and ease, and unless where stated, all the numbers and percentages we will refer to in the presentation are for the first six months of 2018, compared to the prior year period.

For the first half, I am pleased to report a net profit of $24 million (as compared to $23 million last year). If we exclude the one-off Sukuk restructuring costs, we report a net profit of $50 million – up 117% on last year.

Similarly, our second quarter net profit was $10 million, $2 million lower but excluding the Sukuk restructuring costs, our underlying profit would be $36 million, a 200% rise.

In terms of revenue, we report $236 million as compared with $222 million.

The slight increase in revenues and net profit were mainly due to higher realised hydrocarbon prices and cost savings on the sukuk profit payment, which fully offset increases in Other Expenses and non-recurring income in the first half 2017. Chris will elaborate on these charges shortly.

In terms of our liquidity, our cash balance is $613 million boosted by higher levels of collections and comes after our first dividend distribution of $95 million in the second quarter 2018. However, since the period end, we have paid $235 million on Sukuk redemptions, accrued profit entitlements, consent fees and other costs. A further $100 million will be used for Sukuk buybacks within the next nine months.

I will now proceed to say a few words on our collections and capital expenditure.

In the KRI, we are fully paid up on our receipts. We have no outstanding receivables. Just as a reminder this is a major turnaround from the situation prior to the Settlement Agreement with the KRG on 30 August last year.

In Egypt, we collected $89 million in the first half of which $21 million from condensate exports. So despite having a headline collection rate of 144% compared to invoicing, if we exclude the condensate sales our collection rate from government receipts drops significantly. We received a cash payment as our share of the industry payment of $40 million in May which was a positive development but have received no payments at all since then. As a result, our trade receivables remain frustratingly high at just over $200 million and our strategy of balancing investments against collections therefore has to remain in place.

Total capital expenditure year to date has been $38 million, predominantly linked to our drilling and workover efforts in Egypt. In terms of capital expenditure in the KRI, I would like to briefly remind you that we will not be required to provide funds to Pearl Petroleum this year. Capex will come from the ring-fenced development funds of $400 million gross held by Pearl Petroleum and from cash flow from existing operations and third-party financing – for example, the recently announced $26 million financing on our debottlenecking project.

Now on to our **Operations**, starting with production figures.

Group production decreased to 63,600 boepd, following production declines in Egypt and the UAE.

Egyptian production averaged 35,600 boepd as a result of natural field declines and reduced investment in development well drilling activity since 2017.

Our KRI operations increased with production averaging 26,100 boepd, compared to 25,900 boepd.

The UAE's Zora Gas Field averaged 1,300 boepd as compared to 1,700 boepd.

Production declines are a natural part of the gas production business and therefore fields require constant investment to keep output from declining. In Egypt, our strategy of balancing investments against collections resulted in reduced drilling activity in 2017. This was a direct result of not being able to collect the receivables owed to the Company in 2016, as we had informed the Egyptian Government would necessarily be the case.

Following the Egyptian Government's payments in the middle of 2017, we committed to a four-well activity programme, starting in Q4 2017. We have drilled three wells and completed an extensive well workover which brings this phase of the drilling programme to a close. Two of the three wells have been successful and together we have added 14 MMscf/d of production capacity. Following the $40 million payment received in May we have been able to proceed with drilling Balsam-8, onshore Nile Delta which should allow us to bring production back up to plant capacity by year end. The well was spudded on the 11 August. Iman will go into more detail on our drilling activity and the long-term benefits to the Company later in the presentation.

Whilst drilling Balsam-8 is good news for the Company (and the Egyptian Government) it is even more exciting that our development projects in the Kurdistan Region of Iraq are pressing ahead.

Just to remind everyone our targeted expansion plan for this year is an incremental production output increase of 80 MMscf/d of gas, or 25% of current production. This will be achieved by fast-tracking the debottlenecking of our existing ISP facilities, with the stated aim of getting the first incremental output flowing by the end of the third quarter.

In addition, there was good news earlier in the year regarding Pearl Petroleum. First, we signed a ten-year Gas Sales Agreement (GSA) with the KRG to supply and sell the additional quantities of gas from the debottlenecking project. Second, we secured the project finance of $26 million on our debottlenecking project which demonstrates trust and confidence in our project and the KRI.

The GSA is an incredibly important milestone as it will be the first time we realise revenues from selling incremental gas in the KRI. Previously, Pearl Petroleum's service contract meant we provided natural gas to the KRG free of charge and we only realised revenues from the sale of condensate and LPG. As a result, the 25% production increase will have an immediate and positive impact on our revenues and profit in the fourth quarter and onwards into 2019. We expect that it will add $50 million to our bottom line per annum.

I will now pass you over to Chris for the financial highlights.

Chris Hearne – Chief Financial Officer

Thank you, Patrick.

As Patrick mentioned earlier we are all delighted with the Sukuk transaction. As you may have seen we recently issued a press release to announce the completion of the issue of the new Sukuk and its listing on Euronext Dublin which was formerly known as the Irish Stock Exchange; and that all legal proceedings have now been brought to an end.

With the successful conclusion of the Sukuk restructuring now behind us, we are totally focused on delivering results for our long-term shareholders.

Now, on to slide 7.

Dana Gas has delivered a good set of financial numbers for the first half 2018.

Revenue came in at $236 million, a 6% increase over the same period last year.

This increase is the result of higher realised prices for condensate, which contributed $33 million to our top-line. This helped offset a production decrease in Egypt and the UAE, which together had an impact of $19 million.

Gross profit was 39% higher at $82 million, compared to $59 million in the corresponding period last year. This increase is due to improved price realisation, cost control and the reversal of $13 million of accrued OPEX by Pearl Petroleum. The increase helped offset higher DD&A charges from the additional petroleum costs in Pearl Petroleum following the Settlement agreement with KRG.

We also booked a one-off expense for the costs associated with the Sukuk restructuring. This was offset by the cost savings on the profit payment which will be at least $35 million per annum.

Net profit increased 4% to $24 million from $23 million in H1 2017. This was due to higher realised prices during the first half 2018 which was partly offset by lower investment and finance income.

However please note that if the one off Sukuk costs are excluded the Net Profit would be $50 million of the first half of 2018.

Now on to slide 8

Let me begin with our group production numbers. Our average production for the first half was 63,600 boe per day. This is lower by 6% compared with 67,550 for last year.

The decline is due to the Company's operation in Egypt where natural well declines, reduced investment in drilling activity and an increase in formation water from the Balsam 3 and 5 wells, saw output numbers decrease from 39,300 boe per day in 1H 2017 to 35,600 in 1H 2018.

First half average production in the KRI increased to 26,100 boe per day from 25,900 in 1H 2017.

The bottom two graphs illustrate average realised prices. The Group realised an average price of $60 per barrel for condensate and $34 per boe for LPG in the first half 2018 compared to $44 and $32, respectively, in the first half 2017.

Slide 9 highlights our CAPEX and OPEX

G&A and OPEX for the first half totalled $33 million, in line with the $32 million in the first half 2017.

In terms of capital expenditure, we incurred $38 million in the first half of 2018 as compared to $13 million in the corresponding period. The increase in capex relates to our four-well activity programme in Egypt, which started in the fourth quarter 2017, and capex expenditure related to the fast-track of the debottlenecking project in the KRI.

Furthermore, in Egypt the $40 million industry payment received in May has been sufficient for us to restart the drilling program with Balsam-8.

In the KRI, the total capital expenditure for 2018 is set at approximately $200 million at the Pearl Petroleum level. Our 35% contribution will be $70 million. However, as Patrick explained earlier in the call, we have no funding commitment as CPAEX will be sourced either from the existing development fund held by Pearl Petroleum, operating cash flow or third-party financing.

Similarly, in the UAE, Zora will see no capital expenditure until, at the very earliest, negotiations with the buyer on a new gas sales price have been concluded.

Moving on to slide 10, which covers the Company's liquidity and collections position.

The Sukuk holders that chose to remain invested with the Company now receive a new Sukuk instrument. As Patrick noted earlier the overwhelming majority of Sukuk holders elected to remain with the Dana Gas and this underlines that the deal reached was a great outcome for all.

The new instrument is a Wakala Sukuk instrument, based on an underlying Ijara and deferred payment obligation structure. The size of the new instrument is $530.4 million, and it will have a three-year life, maturing in October 2020. The new profit rate is set at 4% and all sukuk holders, who opted for new instrument, have received arrears of profit distribution up until 31 October 2017 at the old rate and after this point profit at the new rate.

We had $613 million in cash as of 30 June 2018, despite the $95 million dividend distribution earlier in the year. However, it is important to note that we do have immediate financial commitments. Subsequent to period end, the completion of the restructuring and issuance of the new Sukuk has resulted in a $235 million payment in respect of pay-down, consent fees, accrued profit entitlements and other costs. A further $100 million will also be used to buyback the Sukuk within the next 9 months.

Whilst on the subject of the Sukuk, I would also like to highlight two important points regarding the restructuring that will have a material impact on our liquidity going forward. Firstly, our finance costs are less than half what they were for the last ten years. This will be a substantial cost saving for the company – approximately $35 million per annum. This will improve the Company's financial position and its ability to pay planned annual dividends in the future. Secondly, the new instrument does not have a convertible element to it, removing what would have been a dilution of more than 20% to shareholders.

Turning now to collections. In Egypt, in the first half 2018, we billed $62 million and collected $89 million. Collections include total industry payments of $50 million and two cargo shipments of condensate sold for a total of just over $21 million. Subsequent to period year, the Group also collected another $11 million for a condensate cargo sold in June. We note that collections remain sporadic and we continue to engage with government officials to get our trade receivables paid down.

In the KRI, we billed $60 million and I am pleased to note that the full amount has been paid.

Before I hand over to Iman, I would like to repeat a message I have given before. Although our financial position has significantly improved over the last twelve months, we must remain focussed in how we manage and spend our money especially with financial commitments due in the short-term and continued challenges in collections from Egypt.

Thank you and over to Iman.

Iman Hill – Technical Director & General Manager UAE

Thank you, Chris.

Turning to slide 12, I will provide a recap on **Egypt** and where we are on our various Blocks.

Looking at **Block 1**, the North El-Salhiya Concession, we have drilled and tested the East South Abu El Naga-1 exploration well and the test results indicate that this is a commercially viable discovery with potential production capacity of 5 MMscf/d. Thereafter, we undertook to workover the South Faraskur well, which resulted in additional production of 4 MMscf/d. The last development well on the drilling sequence, SAEN-9, was also drilled, completed and successfully tested in April and is expected to add up to 5 MMscf/d after tie-back. We are continuing to develop our Balsam development lease and have spud Balsam-8 which when hooked up will help our production to be at the 40,000 boepd of plant capacity by the end of 2018.

Moving on to **Block 3**, the El-Matarya onshore concession, which is our joint venture with BP. The latter has exercised the option to extend the license by a further three years and Dana Gas has exercised its option to continue participating in the next concession exploration phase, which began in January 2018. Detailed work is currently progressing to identify further prospects in the Block, also taking results from the recent drilling campaign into consideration.

We continue to make progress with **Block 6**, the North El Arish concession, preparing to drill our first offshore well early in 2019. We have two 'drill-ready' prospects for which we have conducted site surveys. Detailed planning for the spud continues with long lead items identified and the Invitation to Tender issued to the market. An additional and important focus for us, in parallel with maturing drilling plans, has been to conduct detailed concept selection studies in order to identify the most cost effective and appropriate development concept and plan for the block. Various partners have expressed interest in a potential farm-in and we will update the market in due course.

Moving away from our acreage, we announced to the market earlier in the year that we sold a fourth cargo of 157,200 barrels of El Wastani condensate for $10.5 million. A fifth and sixth cargo of 157,300 and 157,200 barrels was sold in April and June for around $11 million each. As a reminder, these cargoes are being exported by Dana Gas under the GPEA. 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 total we have received to date is now around $55 million, including proceeds from the sixth cargo.

And lastly, before turning to **slide 13** to update you on our operations in the KRI, I wanted to announce that we are currently progressing a number of projects to improve the reliability and performance of the El Wastani Gas plant, namely; start-up of the new sales gas compressor, mercury removal unit, start-up of the new cold box and designing a new regeneration gas heater.

Turning over to the next slide, our investment projects in the **KRI** remain on track.

We have an ambitious and exciting programme to be executed this year and in the following years. A program that will see us increase our existing production, from the current average of 305 MMscf/d to just under 900 MMscf/d in the next two to three years, and in the short term our fast track plans to debottleneck our existing plant which will increase production by 50 to 80 MMscf/d. In addition to this, we have a program to drill up to six wells in total on Khor Mor and Chemchemal.

Significant progress has been made on all elements of this program and I will now share more detail on each of the main elements of the plan.

Starting with drilling:

- On Chemchemal 3 we have drilled the 17.5" hole reaching the target depth of 1765m for setting the 13 3/8"casing. The hole is currently being prepared to run this casing string.
- The KM-12 well spudded on the 11 July.
- We are making good progress on the civil works and site preparation for KM-10. The rig move is 86% complete and our estimated spud date is 25th August.

Next, the debottlenecking continues to progress well with installation of all four EPF Compressor packages last week, a significant milestone for the project.

Moving on to the next phase of production ramp-up which will occur in 2020 and 2021 with the building of two new 250 MMscf/d trains to feed the domestic market as well as neighbouring export markets. Progress has also been made on this with the completion of the concept study for the project.

In addition to all of the operational progress, the Field Development Plan for Khor Mor has been finalised, approved by the PEARL Board and issued to the Ministry of Natural Resources in the KRI.

Concluding with the UAE's Zora Gas Field, **please turn to slide 14**. Production is now averaging just over 1,300 boepd and any final decision on future expenditure to assess the economic viability of the project will be subject to the outcome of negotiations on the sales gas price, which are currently ongoing. We will inform the market when we have a final outcome.

Thank you for your time and I will now hand back to Patrick to conclude the presentation.

Patrick Allman-Ward – Chief Executive Officer

Thank you, Iman.

On slide 15 we have a brief update on our two ongoing arbitrations.

With regard to MOL we are still scheduled to hear the matter in London, starting on 26 November 2018. Regarding the NIOC arbitration, final judgement on the amount of damages is currently expected to be delivered by the end of October this year.

Now to on **slide 17** where I will briefly summarise our first half:

- Firstly we have delivered strong financial result for the half, posting $24m in net profit, which without the Sukuk restructuring costs would have been $50m, or a 117% increase on last year.

- Secondly, we have completed our restructuring and issued our new Sukuk, which is paying a 4% coupon. The new profit payment will allow us to save $35m in financing charges per annum.

- Thirdly, we are on track to increase our production output in the KRI by 25% this year and remain excited about the future potential of our world-class assets there over the medium term with growth potential of a further 170% in 2-3 years.

- Fourthly, the completion of our four-well activity programme earlier this year and the drilling of Balsam-8, currently in progress is expected to reverse our production decline in Egypt and bring us back to operational capacity by year-end.

- Fifthly, we are also excited about the medium term opportunities represented by our offshore Block 6 concession in Egypt and are progressing our plans to spud an exploration well into a multi-Tcf gas prospect there in February 2019.

- Lastly, over the short-to-medium term our priorities are to maximize production at lowest possible costs and to balance our capex commitments against our collections in Egypt.

On that point, I would like to thank you all for your time and I will hand you back to Mohammed to start the Q&A process.

Many thanks.

Mohammed Mubaideen: Thank you, Patrick, Chris and Iman. We will now start the Q&A session, due to time limitations I will kindly ask you to limit yourselves to two questions each.

Operator please start the Q&A session now.