

Dana Gas PJSC and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

DANA GAS PJSC

Report of the Directors

The Board of Directors of Dana Gas (“Dana Gas” or the “Company”) are pleased to announce the consolidated financial results of the Company, its subsidiaries and joint arrangements (together referred to as the “Group”) for the year ended 31 December 2017.

Principal Activities

Dana Gas was incorporated in the Emirate of Sharjah (“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 is the Middle East’s first and largest private sector natural gas company. The Group currently operates in the MENASA (Middle East, North Africa & South Asia) Region across the natural gas value chain; from exploration and production, through gas processing and transportation, to the distribution, marketing and utilisation of gas as feedstock and fuel to the petrochemical, industrial and the power sectors. Since its establishment, the Company has grown to be a regional natural gas Company with presence in the United Arab Emirates, Egypt, and the Kurdistan Region of Iraq (KRI) and headquartered in Sharjah, United Arab Emirates.

Results for the year ended 31 December 2017

During the year, the Company earned gross revenues of USD 450 million (AED 1.6 billion) as compared to USD 392 million (AED 1.4 billion) in 2016, an increase of 15% reflecting increase in realised hydrocarbon prices in 2017 as compared to 2016 and higher production in Egypt. Realised prices were up by 21% in 2017 and impacted the topline by USD 49 million (AED 179 million). Production increase added a further USD 9 million (AED 33 million). Realised price averaged USD 45/bbl for condensate and USD 30/boe for LPG compared to USD 36/bbl and USD 28/boe respectively in 2016.

The Company ended the year with an average production of 67,600 barrels of oil equivalent per day (boepd), an increase of 1% compared to last year’s production of 67,050 boepd. Production in Egypt increased by 5% however this was partly offset by a decline in Zora production which was lower by 39% compared to corresponding year.

The Group achieved a net profit after tax of USD 83 million (AED 305 million) a 194% turnaround from a net loss of USD 88 million (AED 323 million) in 2016. In 2016 the main contributor to the net loss was a one-time interest reversal of USD 66 million (AED 242 million) on overdue receivables due from KRG following the Third Partial Final Award. In 2017, apart from good production growth and higher realised prices; the Company’s profitability also benefited from a very successful settlement with the KRG at end of August 2017. The profit growth in 2017 was impacted by an impairment of USD 34 million (AED 125 million) against Zora assets following receipt of the year end reserve report.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) increased to USD 334 million (AED 1,224 million) compared to USD 207 million (AED 759 million) in 2016.

Liquidity and Financial Resources

Cash and bank balance at year end stood at USD 608 million (AED 2,229 million), an increase of 101% compare to year-end balance of USD 302 million (AED 1,107 million). The increase was mainly due to receipt of USD 210 million (AED 770 million) dividend from Pearl following settlement with KRG and receipt of an industry payment of USD 110 million (AED 403 million) in Egypt during the month of May and June 2017.

On 30 August 2017, pursuant to a Settlement Agreement with the KRG, Pearl Petroleum Company Limited (“Pearl”) received an amount of USD 1 billion (DG Share: USD 350 million) from the KRG towards partial settlement of outstanding receivable. Of this amount, USD 400 million (DG Share: 140 million) is dedicated for investment exclusively for further development to substantially increase production in Kurdistan Region of Iraq. This amount is held by Pearl and will not be distributed as dividend. Accordingly, this amount is classified separately as “Funds held for development”.

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Liquidity and Financial Resources (continued)

The Group collected a total of USD 639 million (AED 2,342 million) during the year with Egypt, Kurdistan Region of Iraq (KRI) and U.A.E. contributing USD 157 million (AED 575 million), USD 466 million (AED 1,708 million) and USD 16 million (AED 59 million), respectively.

On 2 May 2017, the Company also prepaid the Zora outstanding loan amounting of USD 60 million (AED 220 million) plus applicable interest/costs.

Sukuk

As at 30 June 2017, Capital Received on Issuance of Sukuk amounting to USD 700 million was reclassified from Borrowings. Legal advice received from independent UAE legal advisers states that the terms of the Company's Sukuk Al Mudarabah are unlawful under the laws of the UAE 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.

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 courts could result in a significant liability for the Sukukholders 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 USD 635 million to the Sukukholders 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.

Business Update

In line with its outlined strategy, the Dana Gas Group continues to focus on maximising the value of its existing hydrocarbon assets and projects, while pursuing growth through a strategy of organic exploration opportunities in our heartland areas and new business development in the upstream and midstream value chains. We continue to balance our capital expenditure with the available sources of cash to ensure we maintain a robust financial position.

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Report of the Directors

Reserves & Resources

(a) Dana Gas Egypt

Gaffney, Cline & Associates (GCA), a leading advisory firm carried out an independent evaluation of Dana Gas Egypt's hydrocarbon reserves as at 31 December 2017. Following this review, the Group's gross proved reserves (1P) as at 31 December 2017 were assessed at 75 MMboe (31 December 2016: 89 MMboe). The gross proved and probable reserves (2P) as at 31 December 2017 were estimated at 117 MMboe (31 December 2016: 132 MMboe) and the gross proved, probable and possible reserves (3P) as at 31 December 2017 were estimated to be 160 MMboe (31 December 2016: 184 MMboe). Decrease in reserves was on account of production during the year, which was not replaced.

(b) Pearl Petroleum Company Limited

As reported previously, Dana Gas and Crescent Petroleum, joint operators of Pearl Petroleum Company Limited ("PPCL"), estimates that the P50 total geologically risked¹ resources of petroleum initially in-place (PIIP) of the Khor Mor and Chemchemical Fields at 75 Tscf (of wet gas) and 7 billion barrels of oil.

PPCL appointed Gaffney Cline Associates ("GCA"), to carry out a certification of the reserves for these fields as at 31 December 2015 based on a comprehensive data set comprising ca. 1200 km 2D seismic, the 11 wells drilled in the two fields to date plus field production data over a period of seven years.

In their report dated April 2016, GCA provide the following reserves estimates for both fields²:

- a) Proved plus Probable (2P) gas and condensate reserves for Khor Mor are 8.5 Tscf and 191 MMbbl respectively of which Dana Gas' 35% share equates to 3 Tscf of dry gas and 67 MMbbl of condensate.
- b) For Chemchemical, Proved plus Probable (2P) gas and condensate reserves are 6.6 Tscf and 119 MMbbl respectively, with Dana Gas' 35% share being 2.3 Tscf of dry gas and 42 MMbbl of condensate.

The above figures are based on data from 2 of the 12 defined compartments in the Khor Mor Field and 1 of the 3 compartments in the Chemchemical Field. Total Dana Gas share of the Khor Mor and Chemchemical 2P reserves is therefore 5.3 Tcf gas and 109 MMbbls condensate, equivalent to 990 MMboe.

The balance between these 2P reserves figures and the joint operator's estimated risked initially in place (gas and oil) resources (PIIP) are classified as Contingent Resources³ and Prospective Resources⁴.

GCA's report confirms Dana Gas' and Crescent Petroleum's belief that Khor Mor and Chemchemical have the potential to be the largest gas fields in the KRI and indeed in the whole of Iraq and thus makes them world class assets.

(c) Sharjah Western Offshore – Zora Field

Following signing of a concession agreement with Ajman in January 2014, Dana Gas has a 100% working interest in the Zora field which spans the territorial waters of Sharjah and Ajman. Gaffney, Cline & Associates carried out an independent evaluation of Sharjah Western Offshore concession – Zora Field's hydrocarbon reserves as on 31 December 2017. Following this review, the Group's gross proved reserves (1P) as at 31 December 2017 were assessed at 8 MMboe (31 December 2016: 17 MMboe). The gross proved and probable reserves (2P) as at 31 December 2017 were estimated to be 24 MMboe (31 December 2016: 33 MMboe) and the gross proved, probable and possible reserves (3P) as at 31 December 2017 were estimated to be 61 MMboe (31 December 2016: 65 MMboe).

¹ Risked PIIP figures have been calculated by means of a stochastic aggregation using GeoX software with risk factors accounting for geological uncertainties calibrated by surrounding producing oil and/or gas fields.

² The reported hydrocarbon volumes are estimates based on professional judgment and are subject to future revisions, upwards or downwards, as a result of future operations or as additional information becomes available.

³ Those quantities of petroleum estimated to be potentially recoverable but not yet considered mature enough for commercial development due to one or more contingencies.

⁴ Those quantities of petroleum estimated to be potentially recoverable from undiscovered accumulations by future development projects.

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E&P Operations

a) Egypt E&P operations

Dana Gas Egypt ended 2017 with production for the full year of operations of 14.4 MMboe i.e. averaging 39,500 boepd (2016: 13.7 MMboe, i.e. averaging 37,600 boepd) an increase of 5% over the corresponding year. The higher production is a result of El Wastani plant good performance with minimum downtime. El Wastani plant was operating at full capacity throughout the year of 190 MMscf/d of gas, 6,000 bbl/d of condensate and 200 ton/d of LPG.

In Egypt, the Company collected USD 164 million (AED 600 million) during the year and hence realised 129% of the year's revenue. USD 113 million (AED 413 million) was received in US Dollars, USD 44 million (AED 161 million) in equivalent Egyptian pounds and USD 7 million (AED 26 million) was offset against payables to government owned contractors.

At year end, the trade receivable balance reduced to USD 228 million (AED 835 million) from USD 265 million (AED 971 million) at end of 2016. During the year, the Company achieved an important milestone 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 volume of 150,000 barrels. Total proceeds from the three cargos exported during the year was USD 22 million (AED 81 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 Company by the Egyptian Government.

During the year, the BP operated Mocha-1 exploration well in Block 3 was 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.

b) Pearl Petroleum Company Limited (KRI) E&P Operations

In April 2007, the Group entered into agreements with the Kurdistan Regional Government of Iraq for developing the significant petroleum (including gas) resources in the Khor Mor and Chemchemal fields. Since then, the focus has been on developing, processing and transporting natural gas from the Khor Mor Field including processing and extracting LPG and condensate and providing natural gas supplies to domestic power generation plants near Erbil and Sulaimaniya. Further development of both fields is planned following resolution of the ongoing legal dispute. As envisaged under the agreements, such further development is expected to provide significant natural gas supplies for future expansion of power generation and local industries as well as for export and sale abroad as and when the political circumstances permit.

Dana Gas's share (35%) of gross production in the KRI for 2017 was 9.4 MMboe, i.e. averaging 25,750 boe per day (2016 – DG Share 35%: 9.5 MMboe, averaging 26,000 boe per day).

Dana Gas share of collections for the year stood at USD 466 million (AED 1,708 million). Pursuant to the Settlement Agreement with the KRG dated 30 August 2017, KRG settled the outstanding receivable amounting to USD 1.98 billion (DG Share: USD 695 million) as of 30 August 2017 by payment of USD 1 billion (DG Share: USD 350 million) in cash with the residual receivable being converted to petroleum cost and classified as "Oil & Gas interest" on the balance sheet. Consequently at year end, Dana Gas' 35% share of trade receivable balance stood at USD 7 million (AED 26 million) and represents amounts due against local sales for the month of December 2017.

The settlement allows Pearl to start the development of two world-class gas fields with in-place volumes of approximately 75 trillion cubic feet of wet gas and 7 billion bbls of oil, with plans underway to increase total production by 20% this year and 170% within 2 years.

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E&P Operations (continued)

c) Zora Gas Field

The Zora gas field lies partly in the Sharjah Western Offshore Concession area and extends into the adjacent Ajman Concession area with approximately 50% of the volume on each side as agreed under the initial unitization agreement. The field produces slightly sour gas via an unmanned platform in approximately 24 meters of water depth located about 33km offshore. The platform is connected by means of 12" subsea and onshore pipeline system to a gas processing plant located within Sharjah Hamriyah Free Zone.

The gas plant has been in continuous production since 28 February 2016, currently delivering approximately 8 mmscfd sales gas to Sharjah power station and producing on average 76 bbl/day of condensate. Production from the Zora field during 2017 averaged 1,650 boepd (2016: 2,750 boepd). As the current production rate of the Sharjah-2 well has continued to decline, a detailed geo-technical study was carried out, based on production data, to determine the range of well intervention options which could enhance production and to assess their economic viability. This work was further extended into a Field Development Plan to evaluate possible future options for further development and to determine the gas price required to make such further development economically viable. At this time it is unlikely that further well interventions can be economically justified and this has been taken into consideration during the 2017 annual reserves evaluation audit. However, any final decision on future expenditure will also be subject to the outcome of negotiations on sales gas price.

During the year, collections stood at USD 16 million (AED 59 million). At year end, the trade receivable balance stood at USD 1 million (AED 4 million) (31 December 2016: USD 2 million / AED 7 million).

UAE Gas Project

The UAE Gas Project to process and transport imported gas continues to await the commencement of gas supplies from the National Iranian Oil Company ("NIOC") to Crescent Petroleum. Dana Gas has a 35% interest in Crescent National Gas Corporation Limited (CNGCL) which is entitled to market the gas and owns 100% of Sajaa Gas and UGTC, the entities that own the offshore riser platform, the offshore and onshore pipelines and the sour gas processing plant.

For further updates see "Arbitration Cases".

Egypt Gulf of Suez – Gas Liquids Extraction Plant

The Company, through its subsidiary Danagaz Bahrain, is a 26.4% owner (effective) in Egyptian Bahraini Gas Derivative Company (Joint Venture) that has built, owns and operates a Natural Gas Liquids Extraction Plant in Egypt in partnership with the Egyptian National Gas Company (EGAS) and the Arab Petroleum Investments Corporation (APICORP). The plant has a capacity to process 150 mmscf/d of gas and has produced 2,355 boepd of propane (DG Share 26.4%: 622 boepd) and 178 boepd of butane (DG Share 26.4%: 47 boepd) during the year.

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Arbitration Cases

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 USD 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 USD 600 million.
- The KRG to immediately pay Pearl a further of USD 400 million to be dedicated for investment exclusively for the aforesaid further development to substantially increase production.
- Pearl to 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 (USD 1,239 million) was no longer a debt owed by the KRG and was reclassified as outstanding recoverable by Pearl from future revenues generated from 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 programs towards achieving maximum localization 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 Gas Sales & Purchase Contract between Dana Gas' partner Crescent Petroleum and the National Iranian Oil Company (NIOC) for the supply of gas to the UAE has been the subject of international arbitration since June 2009. In August 2014, Dana Gas was notified by Crescent Petroleum 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.

DANA GAS PJSC

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Arbitration Cases (continued)

On 18 July 2016, the English High Court finally dismissed the National Iranian Oil Company ('NIOC's) 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.

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 relating to the settlement of the arbitration with the KRG.

On 30 August 2017, the Company announced settlement of the long running dispute between itself, Crescent Petroleum and Pearl Petroleum Company Limited ("Pearl") and the Kurdistan Regional Government of Iraq (the "KRG") on beneficial terms which paved the way for immediate development of world class resources in Khor Mor and Chemchemal to maximise their potential for mutual benefit as well as the benefit of the people of the Kurdistan Region and all of Iraq.

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.

DANA GAS PJSC

Report of the Directors

Directors

H.H. Sheikh Ahmed Bin Sultan Al-Qasimi, Honorary Chairman

1. Mr. Hamid Dhiya Jafar, Chairman
2. Mr. Rashid Saif Al-Jarwan, Deputy Chairman
3. H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al-Qasimi
4. Mr. Abdullah Ali Al Majdouie
5. Ms. Fatima Obaid Al-Jaber
6. Mr. Hani Abdulaziz Hussein
7. Mr. Majid Hamid Jafar
8. Mr. Nasser Al Nowais
9. Mr. Said Arrata
10. Mr. Varoujan Nerguizian
11. Mr. Ziad Abdulla Ibrahim Galadari

Auditors

The financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board of Directors



Director

14 March 2018

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC

Report on the audit of the consolidated financial statements

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, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of cash flows and 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 USD 1.25 billion (Dana Gas share: USD 439 million), post cash settlement of USD 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 USD 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 USD 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC (continued)

Key audit matters (continued)

(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 USD 289 million and USD 239 million respectively (note 12b). Dana Gas' 35% interest in the marketing entity CNGCL is recorded in the balance sheet at USD 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 USD 308 million (note 12) relating to Egyptian assets and tangible and intangible assets amounting to USD 403 million (notes 11 & 12) relating to the oil and gas interests of Dana Gas Egypt and USD 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 judgments 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC (continued)

Key audit matters (continued)

(iv) Goodwill and oil and gas interest (continued)

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.

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 USD 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 Sukukholders 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC (continued)

Key audit matters (continued)

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC (continued)

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 judgment and maintain professional skepticism 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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



Signed by:
Anthony O'Sullivan
Partner
Registration No. 687

14 March 2018

Sharjah, United Arab Emirates

Dana Gas PJSC and Subsidiaries

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

		2017		2016	
	Notes	USD mm	AED mm	USD mm	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 (USD/AED per share)	10	0.012	0.044	(0.013)	(0.046)
- Diluted earnings / (loss) per share (USD/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.

Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>2017</i>		<i>2016</i>	
	<i>USD mm</i>	<i>AED mm</i>	<i>USD mm</i>	<i>AED mm</i>
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.

Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		2017		2016	
	Notes	USD mm	AED mm	USD mm	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
		<u>2,690</u>	<u>9,861</u>	<u>2,379</u>	<u>8,719</u>
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
		<u>1,092</u>	<u>4,003</u>	<u>1,386</u>	<u>5,081</u>
TOTAL ASSETS		<u>3,782</u>	<u>13,864</u>	<u>3,765</u>	<u>13,800</u>
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
		<u>2,866</u>	<u>10,505</u>	<u>2,781</u>	<u>10,192</u>
Attributable to equity holders of the Parent		<u>2,866</u>	<u>10,505</u>	<u>2,781</u>	<u>10,192</u>
Non-controlling interest		1	4	1	4
		<u>2,867</u>	<u>10,509</u>	<u>2,782</u>	<u>10,196</u>
Total equity		<u>2,867</u>	<u>10,509</u>	<u>2,782</u>	<u>10,196</u>
Non-current liabilities					
Borrowings	25	19	70	62	227
Provisions	27	14	51	11	40
		<u>33</u>	<u>121</u>	<u>73</u>	<u>267</u>
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
		<u>882</u>	<u>3,234</u>	<u>910</u>	<u>3,337</u>
Total liabilities		<u>915</u>	<u>3,355</u>	<u>983</u>	<u>3,604</u>
TOTAL EQUITY AND LIABILITIES		<u>3,782</u>	<u>13,864</u>	<u>3,765</u>	<u>13,800</u>

Director

14 March 2018

Director

14 March 2018

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

Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

		2017		2016	
	Notes	USD mm	AED mm	USD mm	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.

Dana Gas PJSC and Subsidiaries

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	
	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED	USD	AED
	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	mm	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.

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

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:

<i>Subsidiaries</i>	<i>%</i>	<i>Country of incorporation</i>	<i>Principal activities</i>
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
<i>Joint Operations</i>	<i>%</i>	<i>Area of operation</i>	<i>Principal activities</i>
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
<i>Joint Ventures</i>	<i>%</i>	<i>Country/Area of operation</i>	<i>Principal activities</i>
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 (USD), which is the Company's functional currency, and all the values are rounded to the nearest million (USD 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 AED 3.6655 to USD 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 judgment 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 unrealized 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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
- 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

(a) Subsidiaries (continued)

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 recognized 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

(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
- 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 USD 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 & 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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 amount, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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'.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 twelve months after the reporting period
- Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve 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 twelve months after the reporting period
- Or
- There is no unconditional right to defer the settlement of the liability for at least twelve 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 USD 308 million (2016: USD 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 USD 47 million (2016: USD 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

- 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 item's 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.
- Exploration and evaluation expenditures: The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment 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

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Total USD mm</i>
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

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

4 SEGMENTAL INFORMATION (continued)

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Total USD mm</i>
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
Year ended 31 December 2016				
	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Total USD mm</i>
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)

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

4 SEGMENTAL INFORMATION (continued)

	<i>United Arab Emirates USD mm</i>	<i>Egypt USD mm</i>	<i>Kurdistan Region of Iraq USD mm</i>	<i>Total USD mm</i>
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

	<i>2017 USD mm</i>	<i>2016 USD mm</i>
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)

	<i>2017 USD mm</i>	<i>2016 USD mm</i>
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)

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

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 USD 26 million towards such confined payments.

8 FINANCE COST

	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
Profit on Sukuk (note 26)	66	69
Zora gas field project finance (note 25a)	3	5
Egypt equipment and building loan (note 25b & c)	2	2
Murabaha facility	-	1
Exchange loss	-	20
	<u>71</u>	<u>97</u>

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.

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

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

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

11 PROPERTY, PLANT AND EQUIPMENT

	Freehold land USD mm	Building USD mm	Oil and gas interests USD mm	Plant and equipment USD mm	Other assets USD mm	Pipeline & related facilities USD mm	Capital work-in- progress USD mm	Total USD 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:	USD mm							
SajGas plant and facilities	99							
UGTC pipeline & 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 USD 1.25 billion (DG Share: USD 439 million), post cash settlement of USD 1 billion, which was converted to Petroleum Cost pursuant to the Settlement Agreement. This is depleted using the unit of production method.

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land USD mm	Building USD mm	Oil and gas interests USD mm	Plant and equipment USD mm	Other assets USD mm	Pipeline & related facilities USD mm	Capital work-in- progress USD mm	Total USD 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:	USD mm							
SajGas plant and facilities	99							
UGTC pipeline & related facilities	89							
Kurdistan Region of Iraq project	11							
Sharjah Western Offshore (including Zora field)	9							
	208							

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

12 INTANGIBLE ASSETS

	<i>Oil and gas interests USD mm</i>	<i>Transmission & sweetening rights USD mm</i>	<i>Gas processing rights USD mm</i>	<i>Development cost USD mm</i>	<i>Goodwill USD mm</i>	<i>Total USD mm</i>
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

	<i>Oil and gas interests USD mm</i>	<i>Transmission & sweetening rights USD mm</i>	<i>Gas processing rights USD mm</i>	<i>Development cost USD mm</i>	<i>Goodwill USD mm</i>	<i>Total USD mm</i>
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 USD 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, eleven 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.

12 INTANGIBLE ASSETS (continued)

(a) Oil and Gas Interests (continued)

- 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.

(b) Transmission and sweetening rights

Intangible assets include USD 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 ('NIOC's) 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 USD 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.

12 INTANGIBLE ASSETS (continued)**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 & 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 USD 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 USD mm	2016 USD mm
Balance at 1 January	24	25
Change in fair value	-	(1)
Balance at 31 December	<u>24</u>	<u>24</u>

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 USD 24 million.

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14 INTEREST IN JOINT VENTURES

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

	<i>EBGDCO USD mm</i>	<i>Gas Cities USD mm</i>	<i>CNGCL USD mm</i>	<i>Total USD mm</i>
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:

	<i>EBGDCO USD mm</i>	<i>Gas Cities USD mm</i>	<i>CNGCL USD mm</i>	<i>Total USD mm</i>
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.

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

	<i>EBGDCO USD mm</i>	<i>Gas Cities USD mm</i>	<i>CNGCL USD mm</i>	<i>Total USD mm</i>
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)

14 INTEREST IN JOINT VENTURES (continued)

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

	<i>EBGDCO</i> <i>USD mm</i>	<i>Gas Cities</i> <i>USD mm</i>	<i>CNGCL</i> <i>USD mm</i>	<i>Total</i> <i>USD mm</i>
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				
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 USD 560 million, investment of USD 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 ('NIOC's) 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 USD 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 USD 600 million.
- The KRG to immediately pay Pearl a further of USD 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 (USD 1,239 million) was no longer a debt owed by the KRG and was reclassified as outstanding recoverable by Pearl from future revenues generated from 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 programs towards achieving maximum localization 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 PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

15 INTEREST IN JOINT OPERATIONS (continued)

(a) Kurdistan Region of Iraq Project (continued)

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.

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

	2017 USD mm	2016 USD 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 USD mm	2016 USD 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

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

16 INVENTORIES

	2017 USD mm	2016 USD mm
Spares and consumables	58	57
Less: provision for impairment of inventory	(8)	(8)
	<u>50</u>	<u>49</u>

17 TRADE AND OTHER RECEIVABLES

	2017 USD mm	2016 USD 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)
	<u>285</u>	<u>1,026</u>

- 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 USD 7 million (31 December 2016: USD 713 million).

As at 30 August 2017, the Group share of trade receivable from KRG amounted to USD 695 million. Pursuant to the Settlement Agreement with the KRG dated 30 August 2017, KRG settled the receivable by payment of USD 1 billion (DG Share: USD 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:

	Total USD mm	Neither past due nor impaired USD mm	Past due but not impaired				
			<30 days USD mm	30-60 days USD mm	61-90 days USD mm	91-120 days USD mm	>120 days USD 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 USD mm	2016 USD mm
Balance at 1 January	9	8
Change in fair value	-	1
Balance at 31 December	<u>9</u>	<u>9</u>

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.

Dana Gas PJSC and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2017

19 FUNDS HELD FOR DEVELOPMENT

As part of the Settlement Agreement with the KRG (refer note 15), out of the USD 1 billion received from KRG (DG Share: USD 350 million), an amount of USD 400 million (DG Share: USD 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 USD 400 million (DG Share: USD 140 million) in the same amount as such financing without restriction.

20 CASH AND BANK BALANCE

	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
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	<u>608</u>	<u>292</u>
Deposit (Murabaha facility)	-	10
Cash and Bank Balance	<u><u>608</u></u>	<u><u>302</u></u>

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 USD 608 million (2016: USD 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 USD 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 USD 25 million. On 9 April 2017, the loan amount was fully settled and the pledged EGP deposit was released.

21 SHARE CAPITAL

	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
<i>Authorised:</i>		
9,000,000,000 common shares of AED 1 each (USD 0.2728 each)		
<i>Issued and fully paid up:</i>		
6,976,623,422 (2016: 6,968,616,114) common shares of AED 1 each (USD 0.2728 each)	<u><u>1,903</u></u>	<u><u>1,901</u></u>

22 STATUTORY AND LEGAL RESERVE

	<i>Statutory reserve USD mm</i>	<i>Legal reserve USD mm</i>
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

	<i>Share based reserve USD mm</i>	<i>Fair value reserve USD mm</i>	<i>Total USD mm</i>
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:

	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
Expense arising from equity settled share-based payment transactions	<u>2</u>	<u>1</u>

25 BORROWINGS

	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
Non-current		
Bank Borrowings – Zora Gas Field Project Finance (a)	-	39
Equipment loan (b)	10	12
Egypt Building loan (c)	9	11
	<u>19</u>	<u>62</u>
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
	<u>4</u>	<u>41</u>
Total Borrowings	<u>23</u>	<u>103</u>

a) BANK BORROWINGS – ZORA GAS FIELD PROJECT FINANCE

	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
Loan facility	66	91
Less: Repayment during the year	(67)	(26)
Add: Amortisation of loan arrangement fees	1	1
	<u>-</u>	<u>66</u>
Net loan facility	<u>-</u>	<u>66</u>

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 USD 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 USD 12.6 million and have been fully drawn down up to 30 June 2015. After the full draw down, an additional contract of USD 1.1 million (note 25c) was added to the facility thereby increasing the facility to USD 13.7 million. The payments are over a period of 29 quarters commencing from Quarter 3 2015 including grace period of 2 quarters for interest and principal. As of the reporting date, the amount outstanding toward principal is USD 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 USD 13.8 million which was reduced by USD 1.1 million to USD 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 2 quarters for lease payments. As of the reporting date, the amount outstanding toward principal is USD 11 million.

26 CAPITAL RECEIVED ON ISSUANCE OF SUKUK

As at 30 June 2017, Capital Received on Issuance of Sukuk amounting to USD 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 Sukukholders 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 USD 635 million to the Sukukholders 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.

26 CAPITAL RECEIVED ON ISSUANCE OF SUKUK (continued)**Background**

In October 2007, the Group arranged to issue convertible Sukuk-al-Mudarabah (the “Sukuk”) for a total value of USD 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 USD 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 USD 1 billion to USD 850 million via USD 70 million of cash pay-down and cancellation of another USD 80 million of the existing Sukuk already owned by the Company. The remaining USD 850 million was split into two tranches being a USD 425 million Ordinary Sukuk and USD 425 million Exchangeable Sukuk (together the “New Sukuk”), each with 5-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 AED 0.75 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 USD 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 USD 77.4 million and a further USD 72.9 million worth of Sukuk was converted into shares of Dana Gas PJSC. The outstanding Sukuk is USD 700 million.

27 PROVISIONS

	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
Asset decommissioning obligation	12	9
Employee’s end of service benefits	2	2
	<u>14</u>	<u>11</u>

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

	<i>2017</i> <i>USD mm</i>	<i>2016</i> <i>USD mm</i>
Trade payables	38	43
Accruals and other payables	124	76
Advance against local sales in KRI	16	9
	<u>178</u>	<u>128</u>

29 PROVISION FOR SURPLUS OVER ENTITLEMENT (NET)

	2017 USD mm	2016 USD mm
Surplus over Entitlements (note 29a)	-	114
Less: Interest receivable on overdue invoices (note 29b)	-	(67)
Less: Other receivables	-	(6)
	<u>-</u>	<u>41</u>

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 USD 326 million (DG Share 35%: USD 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 USD 117 million (DG Share 35%: USD 41 million) would be repayable to the KRG, even if the entire amount of USD 2.04 billion (DG Share 35%: USD 713 million) in outstanding receivables to Pearl by 31 December 2016 were to be settled in full.

Pursuant to the Settlement Agreement dated 30 August 2017, an amount of USD 1 billion was paid in cash by the KRG and the residual debt of USD 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 USD 260 million (DG Share 35%: USD 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 USD 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 USD 237 million (DG Share 35%: USD 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 USD 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 USD 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 three percent 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 USD 25.5 million on the block during the first phase of exploration which is 4 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. USD 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 USD 20 million on the block during the first phase of exploration which is 3 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 circa. USD 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 USD 60 million on the block during the first phase of exploration which is 3 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 USD 15 million during 3 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	
	<i>Revenues</i>	<i>Fees for management services</i>	<i>Revenues</i>	<i>Fees for management services</i>
	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>
Joint arrangement	1	2	1	2
Major shareholder	-	1	-	-
	<u>1</u>	<u>3</u>	<u>1</u>	<u>2</u>

During 2017, an amount of USD 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.

31 RELATED PARTY DISCLOSURES (continued)**Compensation of key management personnel**

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

	2017 USD mm	2016 USD 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 USD with all other variables held constant, total comprehensive profit for the year would have been USD 0.3 million higher/ lower (2016: USD 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 & U.A.E. 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 USD 15 million higher/lower (2016: USD 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.

(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.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**(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

	<i>Less than 1 month USD mm</i>	<i>Less than 1 year USD mm</i>	<i>1 to 5 years USD mm</i>	<i>>5 years USD mm</i>	<i>Total USD mm</i>
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

	<i>Less than 1 month USD mm</i>	<i>Less than 1 year USD mm</i>	<i>1 to 5 years USD mm</i>	<i>>5 years USD mm</i>	<i>Total USD mm</i>
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 USD 2,634 million as at 31 December 2017 (2016: USD 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:

	<i>Carrying amount 2017 USD mm</i>	<i>Fair value 2017 USD mm</i>	<i>Carrying amount 2016 USD mm</i>	<i>Fair value 2016 USD mm</i>
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

33 FAIR VALUE ESTIMATION (continued)

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:

	<i>Level 1</i> <i>USD mm</i>	<i>Level 2</i> <i>USD mm</i>	<i>Level 3</i> <i>USD mm</i>	<i>Total</i> <i>USD mm</i>
Assets				
Financial assets at fair value through profit or loss	-	9	-	9
Investment property	-	-	24	24
Total	<u>-</u>	<u>9</u>	<u>24</u>	<u>33</u>

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

	<i>Level 1</i> <i>USD mm</i>	<i>Level 2</i> <i>USD mm</i>	<i>Level 3</i> <i>USD mm</i>	<i>Total</i> <i>USD mm</i>
Assets				
Financial assets at fair value through profit or loss	-	9	-	9
Investment property	-	-	24	24
Total	<u>-</u>	<u>9</u>	<u>24</u>	<u>33</u>

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.

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34 FINANCIAL INSTRUMENTS BY CATEGORY

	<i>Loans & receivables USD mm</i>	<i>Assets at fair value through the profit and loss USD mm</i>	<i>Available- for-sale financial asset USD mm</i>	<i>Total USD mm</i>
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
	<i>Liabilities at fair value through the profit and loss USD mm</i>	<i>Derivatives used for hedging USD mm</i>	<i>Other financial liabilities at amortised cost USD mm</i>	<i>Total Total USD mm</i>
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
	<i>Loans & receivables USD mm</i>	<i>Assets at fair value through the profit and loss USD mm</i>	<i>Available- for-sale financial asset USD mm</i>	<i>Total USD mm</i>
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

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34 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	<i>Liabilities at fair value through the profit and loss USD mm</i>	<i>Derivatives used for hedging USD mm</i>	<i>Other financial liabilities at amortised cost USD mm</i>	<i>Total USD mm</i>
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 USD 337,900 (2016: USD 68,250) during the year.