

# **Dana Gas PJSC and Subsidiaries**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2014**

## **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 2014.

#### **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 from a small core team at its head office in Sharjah to a regional as well as international natural gas Company with presence in the United Arab Emirates, Egypt, Saudi Arabia, Bahrain, and the Kurdistan Region of Iraq (KRI).

#### **Results for the year ended 31 December 2014**

During the year, the Group earned gross revenues of US\$ 683 million (AED 2.5 billion) as compared to US\$ 652 million (AED 2.4 billion) in 2013, a 5% increase reflecting production growth in Egypt and Kurdistan, partially offset by lower hydrocarbon prices in the last quarter of 2014.

The Group achieved a net profit after tax of US\$125 million (AED 457 million) as compared to US\$156 million (AED 571 million) in 2013, decline of 20%. The key variances in net profitability were due to an impairment of US\$ 22 million (AED 81 million) of oil and gas assets in Egypt during Quarter 4, 2014 due to fall in oil prices and a one off gain of US\$ 39 million (AED 143 million) recognised on sale of a portion of MOL shares held by the Company during the first quarter of 2013. Excluding this one off gain in 2013, profit from operations in 2014 was 9% higher as compared to that achieved in 2013 resulting from improved production performance and a sharp focus on reducing costs.

The Group ended the year with an average production of 68,900 barrels of oil equivalent per day (boepd), an increase of 6% compared to 2013 production level of 64,700 boepd. Cumulative annual production in Egypt was higher by 9% at 14.6 millions of barrel of oil equivalent (mmboe) compared to 13.4 mmboe in 2013 whereas cumulative annual production in KRI increased by 3% to 10.4 mmboe as compared to 10.0 mmboe in 2013.

Earnings before interest, tax, depreciation, amortisation and exploration write offs (“EBITDAX”) increased to US\$ 366 million (AED 1.34 billion) compared to US\$ 358 million (AED 1.31 billion) in 2013.

#### **Liquidity and Financial Resources**

Cash and bank balance at year end stood at US\$ 184 million (AED 674 million), a decline of 10% compared to the US\$ 204 million (AED 748 million) cash balance in 2013. In December 2014, cash balance was boosted by receipt of US\$ 60 million as part of Egypt’s partial payment to the oil & gas industry. This year end receipt of US\$ 60 million is proposed to be used in Egypt to pay for the local overdue payables, fund future investment requirements and address operational expenses. In 2014, the company received voluntary early conversion notices for the exchangeable sukuk amounting to US\$ 72.9 million (AED 267.2 million). Accordingly 357,094,708 ordinary shares calculated at a conversion price of AED 0.75 (nominal value of AED 1.0) were issued to satisfy the notice. These conversion will result in Sukuk profit saving of approximately US\$ 5 million in 2015.

# **DANA GAS PJSC**

## **Report of the Directors**

### **Business Update**

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

### **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 2014. Following this review, the Group's gross proved reserves (1P) as at 31 December 2014 were assessed at 59 mmboe (31 December 2013: 74 mmboe). The gross proved and probable reserves (2P) as at 31 December 2014 were estimated at 113 mmboe (31 December 2013: 117mmboe) and the gross proved, probable and possible reserves (3P) as at 31 December 2014 were estimated to be 171mmboe (31 December 2013: 189 mmboe).

#### ***(b) Pearl Petroleum Company Limited (KRI)***

Pearl Petroleum Company Limited's ("Pearl Petroleum") appointed GCA, which, following its assessment of the KRI assets in 2013, provided an estimate of hydrocarbons in-place as at 31 December 2012 for both the Khor Mor and Chemchemal fields based on a comprehensive data set comprising ca. 1200 km 2D seismic, the 11 wells drilled in the two fields to date and field production data over a period of five years.

Gas initially in-place volumes (unrisked\*) have been computed by GCA. Based on this report related to the individual fault blocks which comprise Khor Mor, Dana Gas has calculated an aggregated Best Estimate (P50) volume of 22 Tscf. For Chemchemal, gas initially in place volumes (unrisked\*), based on the same assessment reported volumes for the individual fault blocks, have been aggregated by Dana Gas to be a Best Estimate (P50) of 30 Tscf. The GCA report also indicates that both fields have considerable additional upside potential. Dana Gas' 40% share of these Best Estimate in-place volumes for Khor Mor and Chemchemal combined corresponds to 20 Tscf.

GCA also stated that certain Khor Mor fault blocks may contain oil instead of gas and determined oil initially in-place volumes (un-risked\*) for these individual blocks. Dana Gas has calculated an aggregated Best Estimate (P50) volume of around 1.8 billion barrels of oil, in place of around 3 Tscf of gas in these blocks.

GCA's report confirms Dana Gas' belief that Khor Mor and Chemchemal 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.

*\*Note that a risk factor accounting for geological and commercial uncertainties has not been assessed or applied at this time. However, both fields are surrounded by producing oil and/or gas fields which calibrates and reduces the geological and reservoir risks. 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 become available.*

#### ***(c) U.A.E -Zora Field***

Following signing of 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 – Zora Field's hydrocarbon reserves as on 31 December 2014. Following this review, the Group's gross proved reserves (1P) as at 31 December 2014 were assessed at 17 mmboe (31 December 2013: 17 mmboe). The gross proved and probable reserves (2P) as at 31 December 2014 were estimated to be 32 mmboe (31 December 2013: 33 mmboe) and the gross proved, probable and possible reserves (3P) as at 31 December 2014 were estimated to be 64 mmboe (31 December 2013: 64 mmboe).

## **DANA GAS PJSC**

### **Report of the Directors**

#### **E&P Operations**

##### ***(a) Egypt E&P Operations***

Dana Gas Egypt ended 2014 with production for the full year of operations of 14.6 mmboe or an average of 39,900 boepd (2013: 13.4mmboe, i.e. averaging 36,700 boepd). This represents an increase of 9% on a year-on-year basis.

During 2014, the Company received cash of US\$ 163 million (AED 597 million) as compared to the US\$ 134 million (AED 491 million) it received in 2013. Additionally, the Egyptian Natural Gas Holding Company (EGAS) and the Egyptian General Petroleum Corporation (EGPC) offset the Block-6 signature bonus of US\$ 20 million (AED 73 million) and payables to Egyptian government-owned contractors of US\$ 27 million (AED 99 million) against the amounts due to the Company. The monies received are proposed to be used in Egypt to pay for the overdue payables, fund growth-oriented investment requirements and address operational expenses. As on 31 December 2014, trade receivables in Egypt stood at US\$ 233 million (AED 854 million) as compared to US\$ 274 million (AED 1,004 million) as on 31 December 2013.

During the year, Dana Gas Egypt concluded a Gas Production Enhancement Agreement (GPEA) with EGAS and EGPC. This landmark agreement forms the basis for a development program to increase production from current levels of over 40,000 boepd from the Company's existing development leases in the Nile Delta. Under the GPEA, the Company will undertake a long-term, staged work program over a seven-year period with project work expected to start in 1H 2015 and first export sales of incremental volumes of condensate following the completion of tie-in activities. The agreement will help Dana Gas grow its production volumes substantially from its existing development leases and extract the full value of these assets for its shareholders and also enable an accelerated pay down of all the receivables latest by 2018, assuming that the Egyptian Government does not make any further payments to the industry in this time frame. The payment of receivables will get accelerated to the extent of payments that we receive from the Government in the interim. We remain confident that the Government will indeed pay down its dues to the industry in a much shorter timeframe in order to encourage much needed investments in the sector in Egypt.

In its endeavor to grow its business in Egypt sizably, Dana Gas has also been investing in acquiring promising acreage during the various bidding rounds conducted over recent times. In February 2014, Dana Gas signed the Block 6 Concession Agreement with the Egyptian Ministry of Petroleum. In September 2014, Dana Gas was also awarded the North El Salhiya (Block 1) and El Matariya (Block 3) onshore concessions in the Nile Delta as part of the 2014 EGAS bidding round. The two blocks are located adjacent to the Company's existing development leases and have a 6 year exploration period.

Dana Gas Egypt with BP as partner and operator will participate in the Block-3 Concession Area on a 50:50 basis. The parties are in the final stages of negotiating an agreement, which once finalised will see BP fund all of the cost (including Dana Gas's share) of the first exploration well up to an agreed maximum limit. In the event that the well proves commercial, BP has the option to back-in 50% of the deep potential of some of Dana Gas' adjacent Development leases.

##### ***(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 the development of its significant petroleum (including gas) resources in the Khor Mor and Chemchemal fields (the Authorisation). Since then, the focus has been on developing, processing and transporting natural gas from the Khor Mor field including processing and the extraction of LPG and condensate and providing natural gas supplies to fuel domestic electric power generation plants near the major urban centers of Erbil and Suleymania. Further development of the gas resources are planned to include allowing expansion of electricity generation and to supply natural gas as feedstock and energy for local industries.

During 2014, the Group's annual cumulative share (40%) of production in the KRI was 10.4 mmboe, i.e. averaging 28,500 boepd (2013: 10mmboe, averaging 27,600 boepd).

## **DANA GAS PJSC**

### **Report of the Directors**

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

Following commencement of local sales of condensate and LPG in September 2014, Dana Gas share of collections for the year 2014 stood at US\$ 34 million (AED 125 million) compared to US\$ 69 million (AED 253 million) in 2013. This included a cash advance of US\$ 18 million (AED 66 million) received as a guarantee against future lifting of the products. At year end the trade receivable balance stood at US\$ 746 million (AED 2.7 billion) as compared to US\$ 515 million (AED 1.9 billion) in 2013.

#### ***(c) Pearl Petroleum Company Limited– Arbitration Update***

On 21 October 2013, Dana Gas, along with Crescent Petroleum and Pearl Petroleum (which holds petroleum rights in the KRI), commenced arbitration proceedings at the London Court of International Arbitration (LCIA), in accordance with the agreement with the Kurdistan Regional Government (KRG) which was signed in April 2007 and is governed by the English Law.

On 21 March 2014, Dana Gas, along with Crescent Petroleum and Pearl Petroleum filed an Interim Measure Application to the Tribunal. The companies were successful in their application to the Tribunal for interim measures and the Tribunal made an order on 10 July 2014 for the KRG to restore the previous regular payments to the companies as of 21 March 2014, the date of the application, and until the case is concluded. The KRG failed to comply with and challenged the Tribunal's order, although since September 2014, the Company was permitted to commence local sales of condensate and LPG to third parties. On 17 October 2014, the Tribunal dismissed the KRG's challenge and re-affirmed its order for interim measures of 10 July 2014. In addition, the Tribunal also ordered the KRG to pay the Consortium US\$ 100 million within a timeframe of 30 days.

In default of its legal obligations, the KRG failed to make payment by the stipulated deadline of 17 November 2014 and as a consequence, the Tribunal's order became peremptory in nature, enabling its enforcement by the English Court. With the Tribunal's permission, on 12 December 2014, an application to the English Court was made for the enforcement of the order, with the prospect of sanctions being imposed on the KRG for non-compliance. A hearing on the merits before the Tribunal is scheduled to take place in the week of 20 April 2015.

#### ***(d) UAE Gas Project***

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. In July 2010, 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 needed rectification. Notwithstanding this, Crescent Petroleum has been in international arbitration with NIOC since June 2009 to seek a ruling on its binding 25 years gas supply contract with NIOC. Dana Gas was notified by Crescent Petroleum on 10 August 2014 that the Arbitration Tribunal has issued a Final Award for the merit phase of the proceedings, determining that the 25 year contract between it and NIOC is valid and binding upon the parties, and that NIOC has been obligated to deliver gas under the Contract since December 2005.

#### ***(e) 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 agreed as the initial unitization rate. The objective of the project is the transmission of sour rich gas from the Zora gas field to a new onshore gas processing plant within the Sharjah Hamriya Free Zone.

The project includes the engineering, construction and installation of a new unmanned platform, about 33 km offshore, together with 2 horizontal gas production wells in approximately 24 meters of water depth. The platform will be connected by means of a 12" subsea and onshore pipeline system to an onshore gas processing plant where the gas will be processed.

## **DANA GAS PJSC**

### **Report of the Directors**

#### ***(e) Zora Gas Field (continued)***

The platform jacket is completed, towed out and installed. The offshore pipeline installation from shore to the platform is completed and the pipelaying spread is demobilized. The work is in progress for the spool installation for the platform riser to pipeline tie in and the offshore pipeline span corrections. The fabrication of platform topside is in progress at Adyard's fabrication yard in Abu Dhabi.

The JDC Drilling Rig Sagadri-2 arrived at the HFZ shipyard and work is now almost complete on the 5 year inspection and repairs. The rig will be ready to receive drilling equipment for the Dana Gas campaign by mid-March and work has started to prepare for the installation of this equipment. The drilling engineering and planning for the well is mostly complete and is based on tying both wells back to surface drilling and stimulation of two laterals for Sharjah 2 is now at first review stage. The operational staff for drilling are under mobilization.

The civil works for the onshore plant is near completion and all foundation works are completed. The purchase orders for most of the items (162 out of 171) for the onshore plant have been issued. The onshore pipeline contractor mobilization is completed to HFZ site offices. The LOI is issued for the construction of the Tanker Loading Bay for the condensate export. The project is on track for first gas production in 1H 2015 with estimated production of 40 mmscfd.

The project cost will be partly financed through a US\$ 100 million Term Facility that was signed on 25 June 2014 in a syndicated facility of four regional banks ENBD, CBI, CBD and Barwa Bank. This facility will contribute the debt component of the financing needed to complete the project and to bring the Zora gas field on-stream. Subsequent to year end, financial close was achieved for the said Term facility on 16 March 2015, with first drawdown expected to occur immediately thereafter.

#### ***(f) 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) to build, own and operate 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 mmscfd of gas and has processed an average of over 115 mmscfd during the year with entry rate of inlet gas reaching 150 mmscfd as of 31 December 2014.

**DANA GAS PJSC**  
**Report of the Directors**

**Directors**

The Directors who served during the year were:

H.H. Sheikh Ahmed Bin Sultan Al-Qasimi, Honorary Chairman  
Dr. Adel Khalid Al-Sabeeh, Chairman  
Dr. Tawfeeq Abdulrahman Almoayed, Deputy Chairman  
Dr. Patrick Allman-Ward, Chief Executive Officer (From 23 April 2014)  
Mr. Hamid Dhiya Jafar  
Mr. Ahmed Rashid Al Arbeed,  
Mr. Rashid Saif Al-Jarwan  
H.E. Sheikh Sultan Bin Ahmed Bin Sultan Al-Qasimi  
Mr. Abdulaziz Hamad Aljomaih  
Mr. Abdullah Ali Al Majdouie  
Mr. Khalid Abdul Rahman Saleh Al-Rajhi  
Mr. Majid Hamid Jafar  
Mr. Nasser Al Nowais  
Mr. Rashad Mohammed Al-Zubair  
Mr. Said Arrata  
Mr. Varoujan Nerguizian  
Mr. Ziad Abdulla Ibrahim Galadari  
Mr. Ahmed Al Midfa  
Mr. Salah Al Qahtani

**Auditors**

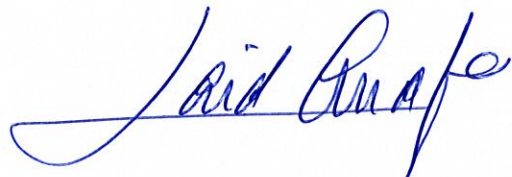
The financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for reappointment

On behalf of the Board of Directors



Director

26 March 2015





## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DANA GAS PJSC**

### **Report on the financial statements**

We have audited the accompanying consolidated financial statements of Dana Gas PJSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, 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 a summary of significant accounting policies and other explanatory information.

### *Directors' responsibility for the consolidated financial statements*

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), and the applicable provisions of the articles of association of Dana Gas PJSC and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of matters*

- (i) We draw attention to note 10 to the consolidated financial statements which discloses that the continued delay in commencement of gas supplies has prompted a key supplier of the Group to initiate arbitration proceedings against its ultimate supplier; and
- (ii) We also draw attention to note 13 to the consolidated financial statements which discloses arbitration proceedings entered into with the Kurdistan Regional Government of Iraq.

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

### **Report on Other Legal and Regulatory Requirements**

We also confirm that, in our opinion, the consolidated financial statements include in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the Articles of Association of Dana Gas PJSC; proper books of account have been kept by Dana Gas PJSC, an inventory was duly carried out and the contents of the report of the Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the Articles of Association of Dana Gas PJSC have occurred during the year which would have had a material effect on the business of Dana Gas PJSC or on its financial position.



Signed by  
Thodla Hari Gopal  
Registration No. 689  
For Ernst & Young

26 March 2015

Sharjah, United Arab Emirates

# Dana Gas PJSC and Subsidiaries

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

		2014		2013	
	Notes	USD mm	AED mm	USD mm	AED mm
Revenue	5	683	2,504	652	2,390
Royalties	5	(207)	(759)	(192)	(704)
Net revenue	5	476	1,745	460	1,686
Operating costs		(55)	(202)	(66)	(242)
Depreciation and depletion	9	(118)	(433)	(106)	(389)
<b>Gross profit</b>		<b>303</b>	<b>1,110</b>	<b>288</b>	<b>1,055</b>
Investment and finance income	6	3	11	44	161
Impairment of oil and gas assets	9/10	(22)	(81)	(3)	(11)
Change in fair value of investment property	11	(1)	(4)	(1)	(4)
General and administration expenses		(28)	(102)	(32)	(117)
Other expenses		(4)	(15)	-	-
Share of loss of a joint venture	12	(1)	(4)	(1)	(4)
Exploration cost written-off	9	(1)	(4)	(8)	(29)
Finance cost		(73)	(267)	(78)	(286)
<b>PROFIT BEFORE INCOME TAX</b>		<b>176</b>	<b>644</b>	<b>209</b>	<b>765</b>
Income tax expense	7	(51)	(187)	(53)	(194)
<b>PROFIT FOR THE YEAR</b>		<b>125</b>	<b>457</b>	<b>156</b>	<b>571</b>
<b>PROFIT ATTRIBUTABLE TO:</b>					
- Equity holders of the parent		125	457	156	571
- Non-controlling interest		-	-	-	-
		<b>125</b>	<b>457</b>	<b>156</b>	<b>571</b>
<b>EARNINGS PER SHARE:</b>					
- Basic earnings per share (USD/AED per share)	8	0.018	0.066	0.024	0.086
- Diluted earnings per share (USD/AED per share)	8	0.017	0.064	0.021	0.078

The attached notes 1 to 30 form part of these consolidated financial statements.

Dana Gas PJSC and Subsidiaries

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	<b>2014</b>		<b>2013</b>	
	<b>USD mm</b>	<b>AED mm</b>	<b>USD mm</b>	<b>AED mm</b>
<b>Profit for the year</b>	<b>125</b>	<b>457</b>	<b>156</b>	<b>571</b>
<b>Other comprehensive income:</b>				
<i>Other comprehensive income to be classified to income statement in subsequent periods:</i>				
Fair value loss on available-for-sale financial asset (note 16)	<b>(26)</b>	<b>(94)</b>	<b>(20)</b>	<b>(73)</b>
<b>Other comprehensive loss for the year</b>	<b>(26)</b>	<b>(94)</b>	<b>(20)</b>	<b>(73)</b>
<b>Total comprehensive income for the year</b>	<b>99</b>	<b>363</b>	<b>136</b>	<b>498</b>
<b>ATTRIBUTABLE TO:</b>				
- Equity holders of the parent	<b>99</b>	<b>363</b>	<b>136</b>	<b>498</b>
- Non-controlling interest	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>99</b>	<b>363</b>	<b>136</b>	<b>498</b>

The attached notes 1 to 30 form part of these consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 USD mm	AED mm	2013 USD mm	AED mm
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	948	3,474	960	3,519
Intangible assets	10	728	2,669	738	2,705
Investment property	11	26	95	27	99
Interest in joint ventures	12	566	2,074	567	2,078
		<u>2,268</u>	<u>8,312</u>	<u>2,292</u>	<u>8,401</u>
<b>Current assets</b>					
Inventories	14	51	187	59	217
Trade and other receivables	15	1,049	3,844	845	3,098
Available-for-sale financial asset	16	51	187	100	367
Financial assets at fair value through profit or loss	17	9	33	8	29
Cash and cash equivalents	18	184	674	204	748
		<u>1,344</u>	<u>4,925</u>	<u>1,216</u>	<u>4,459</u>
Assets classified as held for sale		-	-	13	47
<b>TOTAL ASSETS</b>		<u><u>3,612</u></u>	<u><u>13,237</u></u>	<u><u>3,521</u></u>	<u><u>12,907</u></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves attributable to equity holders of the Parent</b>					
Share capital	19	1,899	6,961	1,801	6,602
Statutory reserve	20	93	340	80	293
Legal reserve	20	93	340	80	293
Retained earnings		578	2,119	482	1,767
Other reserves	21	(14)	(51)	16	58
Exchangeable bonds- equity component	22	58	212	81	297
		<u>2,707</u>	<u>9,921</u>	<u>2,540</u>	<u>9,310</u>
Attributable to equity holders of the Parent					
Non-controlling interest		3	11	3	11
<b>Total equity</b>		<u><u>2,710</u></u>	<u><u>9,932</u></u>	<u><u>2,543</u></u>	<u><u>9,321</u></u>
<b>Non-current liabilities</b>					
Borrowings	22	748	2,741	815	2,988
Provisions	23	19	69	17	62
		<u>767</u>	<u>2,810</u>	<u>832</u>	<u>3,050</u>
<b>Current liabilities</b>					
Trade payables and accruals	24	135	495	141	518
		<u>135</u>	<u>495</u>	<u>141</u>	<u>518</u>
<b>Total liabilities</b>		<u><u>902</u></u>	<u><u>3,305</u></u>	<u><u>973</u></u>	<u><u>3,568</u></u>
Liabilities directly associated with the assets classified as held for sale		-	-	5	18
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>3,612</u></u>	<u><u>13,237</u></u>	<u><u>3,521</u></u>	<u><u>12,907</u></u>

Director  
16 March 2015

Director  
16 March 2015

The attached notes 1 to 30 form part of these consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

		2014		2013	
	Notes	USD mm	AED mm	USD mm	AED mm
<b>OPERATING ACTIVITIES</b>					
Profit before income tax		176	644	209	765
Adjustments for:					
Depreciation and depletion	9	118	433	106	389
Investment and finance income	6	(3)	(11)	(44)	(161)
Change in fair value of investment property	11	1	4	1	4
Finance costs		73	267	78	286
Exploration cost write-off	9	1	4	8	29
Impairment of oil and gas assets	9	22	81	3	11
Share of loss of a joint venture	12	1	4	-	-
Board compensation		(3)	(11)	(3)	(11)
		<u>386</u>	<u>1,415</u>	<u>358</u>	<u>1,312</u>
Changes in working capital:					
Trade and other receivables		(244)	(895)	(194)	(711)
Inventories		10	37	(7)	(26)
Trade payables and accruals		1	4	21	78
		<u>153</u>	<u>561</u>	<u>178</u>	<u>653</u>
Net cash generated from operating activities		<u>153</u>	<u>561</u>	<u>178</u>	<u>653</u>
Income tax paid	7	(51)	(187)	(53)	(194)
Net cash flows from operating activities		<u>102</u>	<u>374</u>	<u>125</u>	<u>459</u>
<b>INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(85)	(312)	(64)	(234)
Expenditure on intangible assets		-	-	(22)	(81)
Proceeds from sale of Komombo		3	11	-	-
Un-claimed acquisition cost - Centurion		3	11	-	-
Proceeds from partial disposal of available-for-sale financial asset		18	66	134	491
Investment and finance income received		6	22	6	22
Investment redeemed during the year		-	-	2	7
		<u>(55)</u>	<u>(202)</u>	<u>56</u>	<u>205</u>
Net cash flows (used in)/from investing activities		<u>(55)</u>	<u>(202)</u>	<u>56</u>	<u>205</u>
<b>FINANCING ACTIVITIES</b>					
Sukuk repayment		-	-	(70)	(257)
Finance costs paid		(67)	(246)	(71)	(260)
		<u>(67)</u>	<u>(246)</u>	<u>(141)</u>	<u>(517)</u>
Net cash flows used in financing activities		<u>(67)</u>	<u>(246)</u>	<u>(141)</u>	<u>(517)</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>					
		(20)	(74)	40	147
Cash and cash equivalents at the beginning of the year	18	<u>204</u>	<u>748</u>	<u>164</u>	<u>601</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>18</b>	<u><u>184</u></u>	<u><u>674</u></u>	<u><u>204</u></u>	<u><u>748</u></u>

The attached notes 1 to 30 form part of these consolidated financial statements.

# Dana Gas PJSC and Subsidiaries

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

### Attributable to the equity holders of the parent

	Share capital		Statutory reserve		Legal reserve		Retained earnings		Other reserves		Exchangeable sukuk-equity component		Non-controlling interest		Total	
	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm	USD mm	AED mm
<b>As at 1 January 2013</b>	<b>1,801</b>	<b>6,602</b>	<b>65</b>	<b>238</b>	<b>65</b>	<b>238</b>	<b>349</b>	<b>1,280</b>	<b>85</b>	<b>310</b>	<b>48</b>	<b>176</b>	<b>4</b>	<b>15</b>	<b>2,417</b>	<b>8,859</b>
Profit for the year	-	-	-	-	-	-	156	571	-	-	-	-	-	-	156	571
Other comprehensive income	-	-	-	-	-	-	-	-	(20)	(73)	-	-	-	-	(20)	(73)
Share based reserve	-	-	-	-	-	-	10	37	(10)	(37)	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	166	608	(30)	(110)	-	-	-	-	136	498
Transfer to reserves	-	-	15	55	15	55	(30)	(110)	-	-	-	-	-	-	-	-
Gain on disposal of available for sale financial asset (note 6)	-	-	-	-	-	-	-	-	(39)	(142)	-	-	-	-	(39)	(142)
Equity component of Exchangeable sukuk	-	-	-	-	-	-	-	-	-	-	33	121	-	-	33	121
Loss to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(1)	(4)	(1)	(4)
Board compensation	-	-	-	-	-	-	(3)	(11)	-	-	-	-	-	-	(3)	(11)
<b>As at 31 December 2013</b>	<b>1,801</b>	<b>6,602</b>	<b>80</b>	<b>293</b>	<b>80</b>	<b>293</b>	<b>482</b>	<b>1,767</b>	<b>16</b>	<b>58</b>	<b>81</b>	<b>297</b>	<b>3</b>	<b>11</b>	<b>2,543</b>	<b>9,321</b>
Profit for the year	-	-	-	-	-	-	125	457	-	-	-	-	-	-	125	457
Other comprehensive income	-	-	-	-	-	-	-	-	(26)	(94)	-	-	-	-	(26)	(94)
Total comprehensive income for the year	-	-	-	-	-	-	125	457	(26)	(94)	-	-	-	-	99	363
Transfer to reserves	-	-	13	47	13	47	(26)	(94)	-	-	-	-	-	-	-	-
Reclassification of previously recognised gain on disposed available-for-sale financial asset	-	-	-	-	-	-	-	-	(3)	(11)	-	-	-	-	(3)	(11)
Conversion of Sukuk (note 22)	97	355	-	-	-	-	-	-	-	-	(23)	(85)	-	-	74	270
Issuance of shares to employees	1	4	-	-	-	-	-	-	(1)	(4)	-	-	-	-	-	-
Board compensation	-	-	-	-	-	-	(3)	(11)	-	-	-	-	-	-	(3)	(11)
<b>As at 31 December 2014</b>	<b>1,899</b>	<b>6,961</b>	<b>93</b>	<b>340</b>	<b>93</b>	<b>340</b>	<b>578</b>	<b>2,119</b>	<b>(14)</b>	<b>(51)</b>	<b>58</b>	<b>212</b>	<b>3</b>	<b>11</b>	<b>2,710</b>	<b>9,932</b>

The attached notes 1 to 30 form part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**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 Al-Khobar, Bahrain, Cairo, Kurdistan Region of Iraq and London.

Principal subsidiaries and joint arrangements of the Group at 31 December 2014 and the Company percentage of ordinary share capital or interest are set out below:

<b>Subsidiaries</b>	<b>%</b>	<b>Country of incorporation</b>	<b>Principal activities</b>
Dana Gas LNG Ventures Limited	100	British Virgin Islands	Oil and Gas exploration & production
Dana Gas Egypt	100	Barbados	Oil and Gas exploration & production
Dana Gas Exploration 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
<b>Joint Operations</b>	<b>%</b>	<b>Area of operation</b>	<b>Principal activities</b>
Pearl Petroleum Company Limited (“Pearl Petroleum”)	40	Kurdistan Region of Iraq	Oil and Gas exploration & production
UGTC/ Emarat JV	50	Emirate of Sharjah	Gas Transmission
<b>Joint Ventures</b>	<b>%</b>	<b>Country/Area of operation</b>	<b>Principal activities</b>
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

### 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, available-for-sale financial asset 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 2014. The nature and the impact of each new standard and amendment are described below. Several other amendments apply for the first time in 2014, however, they do not impact the consolidated financial statements of the Group. Other than the changes described below, accounting policies adopted are consistent with those of the previous financial year:

#### ***Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)***

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

#### ***Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32***

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangement.

#### ***Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39***

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group.

#### ***Annual Improvements 2010-2012 Cycle***

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

#### ***Annual Improvements 2011-2013 Cycle***

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **New standards and interpretations issued but not yet effective and not yet adopted**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements are disclosed below. These are the changes that the Group reasonably expects will have an impact on its disclosures, financial position or financial performance when applied at a future date. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

#### ***IFRS 9 Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets and liabilities.

#### ***Annual improvements 2010-2012 Cycle***

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

#### ***IFRS 2 Share-based Payment***

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

#### ***IFRS 3 Business Combinations***

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

#### ***IFRS 8 Operating Segments***

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

#### ***IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets***

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

#### ***IAS 24 Related Party Disclosures***

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Annual improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

**IFRS 3 Business Combinations**

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

**IFRS 13 Fair Value Measurement**

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

**IAS 40 Investment Property**

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

**Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests**

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**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 2014.

*(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Basis of consolidation (continued)**

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

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

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

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

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

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

#### *(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured 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.



---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of consolidation (continued)**

*(d) Associates (continued)*

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.

*(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Segment reporting

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

#### Foreign currency translation

##### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 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
Pipelines & related facilities	25 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Other assets:***

Computers	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.

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-licence 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.

---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Intangible assets**

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

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

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

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

**Goodwill**

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

---

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**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.

*(a) 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.

*(b) 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'.

*(c) 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/loss is recognised in investment and finance income 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 re-organisation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**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.

**Equity-settled transaction**

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Restricted shares***

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

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

**Current versus non-current classification**

The Group presents assets and liabilities in the 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.

**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***

Revenue from surplus funds invested with financial institutions is recognised as the revenue accrues.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

### 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 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 2014 was USD 308 million (2013: 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 2014 was USD 124 million (2013: USD 134 million).
- **The Group carries its investment properties 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 2014.
- **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**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 proved 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 2014 is shown in Note 10.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**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 2014**

	<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	<u>4</u>	<u>225</u>	<u>247</u>	<u>476</u>
Gross profit				303
Investment and finance income				3
Impairment of oil and gas assets				(22)
Change in fair value of investment property				(1)
General and administration expenses				(28)
Other expenses				(4)
Share of loss of a joint venture				(1)
Exploration expenses				(1)
Finance costs				(73)
Profit before income tax				176
Income tax expense				(51)
<b>PROFIT FOR THE YEAR</b>				<u>125</u>
Segment assets as at 31 December 2014	<u>1,392</u>	<u>1,124</u>	<u>1,096</u>	<u>3,612</u>
Segment liabilities as at 31 December 2014	<u>798</u>	<u>64</u>	<u>40</u>	<u>902</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

## 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>
<b>Other segment information</b>				
<b>Capital expenditure:</b>				
<b>Intangible assets</b>	-	21	-	21
<b>Property, plant and equipment</b>	62	39	-	101
<b>Total</b>	<u>62</u>	<u>60</u>	<u>-</u>	<u>122</u>
<b>Depreciation, depletion &amp; amortisation</b>	2	103	13	118
<b>Change in fair value of investment property</b>	1	-	-	1
<b>Impairment</b>	-	22	-	22
<b>Exploration expenses</b>	-	1	-	1
<b>Year ended 31 December 2013</b>				
	<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	<u>5</u>	<u>225</u>	<u>230</u>	<u>460</u>
Gross profit				288
Investment and finance income				44
Impairments				(3)
Change in fair value of investment property				(1)
General and administration expenses				(32)
Share of loss of a joint venture				(1)
Exploration expenses				(8)
Finance costs				(78)
Profit before income tax				209
Income tax expense				(53)
<b>PROFIT FOR THE YEAR</b>				<u>156</u>
Segment assets as at 31 December 2013	<u>1,485</u>	<u>1,164</u>	<u>872</u>	<u>3,521</u>
Segment liabilities as at 31 December 2013	<u>844</u>	<u>116</u>	<u>18</u>	<u>978</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**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:				
Intangible assets	-	22	-	22
Property, plant and equipment	5	55	4	64
Total	5	77	4	86
Depreciation, depletion & amortisation	2	91	13	106
Change in fair value of investment property	1	-	-	1
Impairment	-	3	-	3
Exploration expenses	-	8	-	8

**5 REVENUE**

	<i>2014 USD mm</i>	<i>2013 USD mm</i>
Gross revenue	679	647
Less: royalties	(207)	(192)
Net revenue	472	455
Tariff/ management fee	4	5
	476	460

Royalties relate to Government share of production in Egypt.

Tariff/management fees relates to fixed pipeline capacity fees charged by UGTC/Emarat.

**6 INVESTMENT AND FINANCE INCOME**

	<i>2014 USD mm</i>	<i>2013 USD mm</i>
(Loss)/gain on disposal of available for sale financial asset	(2)	39
Loss on disposal of Komombo interest	(1)	
Dividend income	4	3
Profit share from bank deposits	1	2
Fair value gain on financial assets at fair value through profit or loss (note 17)	1	-
	3	44

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**7 INCOME TAX EXPENSE****a) UAE**

The Company is not liable to corporate income tax in its primary jurisdiction (UAE).

**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% (2013: 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. The effective tax rate was 29 % (2013: 25 %).

**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.

**8 EARNINGS PER SHARE**

(a) 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.

	<b>2014</b>	<b>2013</b>
<b>Earnings:</b>		
Net profit for the year - USD mm	<u><b>125</b></u>	<u><b>156</b></u>
<b>Shares:</b>		
Weighted average number of shares outstanding for calculating basic EPS- million	<u><b>6,888</b></u>	<u><b>6,602</b></u>
<b>EPS (Basic) – USD:</b>	<u><b>0.018</b></u>	<u><b>0.024</b></u>

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible sukuk and restricted shares. The convertible sukuk is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the finance cost effect. For the restricted shares the total numbers of shares which will vest over the period are considered to calculate dilution.

	<b>2014</b>	<b>2013</b>
<b>Earnings:</b>		
Net profit for the year - USD mm	<b>125</b>	<b>156</b>
Finance cost on Exchangeable sukuk - USD mm	<u><b>25</b></u>	<u><b>30</b></u>
	<u><b>150</b></u>	<u><b>186</b></u>
<b>Shares:</b>		
Weighted average number of shares outstanding for calculating basic EPS- million	<b>6,888</b>	<b>6,602</b>
Adjustments for:		
Restricted shares (million)	<b>2</b>	<b>14</b>
Assumed conversion of Exchangeable sukuk (million)*	<u><b>1,724</b></u>	<u><b>2,081</b></u>
Weighted average number of ordinary shares for diluted earnings per share (million)	<u><b>8,614</b></u>	<u><b>8,697</b></u>
<b>EPS (Diluted) – USD:</b>	<u><b>0.017</b></u>	<u><b>0.021</b></u>

\* As per the agreement, the conversion rate for the Exchangeable sukuk was set at a 50% premium to the 75 calendar day volume-weighted average price, measured over a period commencing on 1 December 2012 (with a floor of AED 0.75 and cap of AED 1.00). The initial effective exchange price for the Exchangeable sukuk was determined on 13 February 2013 and has been fixed at AED 0.75 per share (floor price).

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

### 9 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
<b>Cost:</b>								
At 1 January 2014	14	12	817	354	32	119	230	1,578
Additions	-	-	25	12	2	-	62	101
Transfer from intangible assets (note 10)	-	-	28	-	-	-	-	28
Impairment	-	-	(22)	-	-	-	-	(22)
Exploration cost write-off	-	-	(1)	-	-	-	-	(1)
At 31 December 2014	14	12	847	366	34	119	292	1,684
<b>Depreciation/ Depletion:</b>								
At 1 January 2014	-	1	510	70	15	22	-	618
Depreciation/ depletion charge for the year	-	1	93	19	1	4	-	118
At 31 December 2014	-	2	603	89	16	26	-	736
Net carrying amount:								
At 31 December 2014	14	10	244	277	18	93	292	948
<b>Capital Work in Progress comprises:</b>	USD mm							
SajGas Plant and facilities	99							
UGTC Pipeline & related facilities	89							
Kurdistan Region of Iraq Project	3							
Sharjah Western Offshore (including Zora field)	101							
	292							

# Dana Gas PJSC and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

### 9 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Freehold land USD mm</i>	<i>Building USD mm</i>	<i>Oil and gas interests USD mm</i>	<i>Plant and equipment USD mm</i>	<i>Other assets USD mm</i>	<i>Pipeline &amp; related facilities USD mm</i>	<i>Capital work-in- progress USD mm</i>	<i>Total USD mm</i>
Cost:								
At 1 January 2013	14	12	738	345	30	119	213	1,471
Additions	-	-	47	5	2	-	10	64
Transfer from intangible assets (note 10)	-	-	66	-	-	-	-	66
Transfer from capital work-in-progress	-	-	1	9	-	-	(10)	-
Assets held for sale	-	-	(27)	-	-	-	-	(27)
Exploration costs write-off	-	-	(8)	-	-	-	-	(8)
Transfer of interest*	-	-	-	-	-	-	17	17
Write off	-	-	-	(5)	-	-	-	(5)
At 31 December 2013	14	12	817	354	32	119	230	1,578
Depreciation/ Depletion:								
At 1 January 2013	-	1	450	54	11	17	-	533
Depreciation/ depletion charge for the year	-	-	81	16	4	5	-	106
Assets held for sale	-	-	(21)	-	-	-	-	(21)
At 31 December 2013	-	1	510	70	15	22	-	618
Net carrying amount:								
At 31 December 2013	14	11	307	284	17	97	230	960
Capital Work in Progress comprises:	<i>USD mm</i>							
SajGas Plant and facilities	99							
UGTC Pipeline & related facilities	89							
Kurdistan Region of Iraq Project	2							
Sharjah Western Offshore (including Zora field)	40							
	230							

\* Transfer of interest relates to the 50% cost transfer from Ajman Petroleum Investment Company following award of the concession agreement for the Zora field by the Emirate of Ajman to Dana Gas PJSC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**9 PROPERTY, PLANT AND EQUIPMENT (continued)**

On 22 June 2012, an LPG road tanker belonging to a local LPG trader and off taking LPG on behalf of and under contract with the KRG, exploded and caused a fire during filling at the loading facility of the Kor Mor LPG plant. The incident resulted in five fatalities and caused extensive damage to the LPG loading facility as well as two other third-party road tankers. Detailed and comprehensive investigations conducted by independent and internationally recognized experts have confirmed that the incident was caused by a latent welding defect in the third-party tanker, which caused it to rupture during normal filling operations.

PPCL awarded the contract to an EPC Contractor for the reconstruction of the damaged loading bay facility and formally derecognised the cost of damaged assets amounting US\$ 12.8 million (Dana Gas share: US\$ 5 million) based on early cost estimates from the EPC contractor. The reconstruction of the facilities were completed and commissioned in Q3, 2013. In accordance with the terms and conditions of the insurance policies, PPCL's insurers have completed the review, through their loss adjusters, of the total reconstruction costs incurred by the Company. Consequently, the insurers have formally acknowledged the total insurance claim settlement amount of US\$10.96 million – 100% (net of insurance deductible of US\$ 1million) towards the reimbursement of the costs incurred for the restoration of the damaged LPG loading facility on a 'like for like basis'. The insurers made an interim on-account settlement of US\$ 6 million in Q2 2013 against the total insurance claim and the balance amount (which was shown as receivable at 31 December 2013) was subsequently received in Q1, 2014.

In Q4 2013, upon the formal acknowledgement of the final settlement amount by the insurers, PPCL charged the unrecoverable cost of assets damaged amounting to US\$2.1 million (Dana Gas share: US\$ 0.8 million) in the statement of comprehensive income.

Impairment charge of USD 22 million recognised during Quarter 4 2014 relates to oil and gas assets in Egypt

**10 INTANGIBLE ASSETS**

	<i>Oil and gas interests USD mm</i>	<i>Transmission &amp; 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 2014	233	289	7	2	308	839
Less: impairment	(99)	-	-	(2)	-	(101)
At 1 January 2014	134	289	7	-	308	738
Additions - net	18	-	-	-	-	18
Transfer to property, plant and equipment (note 9)	(28)	-	-	-	-	(28)
<b>At 31 December 2014</b>	<b>124</b>	<b>289</b>	<b>7</b>	<b>-</b>	<b>308</b>	<b>728</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

## 10 INTANGIBLE ASSETS (continued)

	<i>Oil and gas interests USD mm</i>	<i>Transmission &amp; 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 2013	277	289	7	2	308	883
Less: impairment	(96)	-	-	(2)	-	(98)
At 1 January 2013	181	289	7	-	308	785
Additions - net	22	-	-	-	-	22
Transfer to property, plant and equipment (note 9)	(66)	-	-	-	-	(66)
Impairment	(3)	-	-	-	-	(3)
At 31 December 2013	134	289	7	-	308	738

## (a) Oil and Gas Interests

Oil and gas interests of USD 124 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 10% 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 76% of Dana Gas Egypt current production. The Egyptian Natural Gas Holding Company (“EGAS”) approved new development lease for Balsam and Allium 1 in February 2014. EGAS initially approved the scope of new development lease for Begonia discovery during the second half of 2013 with formal approval in March 2015.
- 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. EGAS, in February 2014, approved the scope of the Sama development lease amendment for West Sama-1 and approved also new development lease for Salma in July 2014. To date, two development leases are producing both natural gas and associated liquids representing approximately 14% 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. As per the concession agreement, Dana Gas Egypt had to pay a signature bonus of USD 20 million to the Egyptian Natural Gas Holdings. This amount payable was offset against the outstanding receivables in January 2015.
- 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. Dana As per the concession agreement, Dana Gas Egypt had to pay a signature bonus of USD 5 million to the Egyptian Natural Gas Holdings. This amount payable was offset against the outstanding receivables in January 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**10 INTANGIBLE ASSETS (continued)**

- El Matariya Onshore (Block-3) - In September 2014, Dana Gas Egypt was awarded a 50% working interest in the El Matariya Onshore (Block 3) concession area. The area is located onshore Nile Delta. As per the concession agreement, Dana Gas Egypt will with BP as partner and operator will participate on a 50:50 basis. Dana Gas Egypt (50% share) had to pay a signature bonus of USD 7.5 million to the Egyptian Natural Gas Holdings. This amount payable was offset against the outstanding receivables in January 2015.
- Kom Ombo Concession – On 30 December 2013, Dana Gas Egypt, entered into a Farmout Agreement with Mediterra Energy Ltd to farmout its entire 50% interest in the concession. All the necessary approvals from regulatory authorities were received in Quarter 3, 2014. Accordingly all the assets and liabilities relating to the concession have been de-recognised.

**(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 Arbitration Tribunal has issued a Final Award for the merit phase of the proceedings, determining that the 25 year contract between it and NIOC is valid and binding upon the parties, and that NIOC has been obligated to deliver gas under the Contract since December 2005.

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 2014. 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.

**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 on 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**10 INTANGIBLE ASSETS (continued)**

*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 cashflow model. The future cash flows are discounted to their present value using a pre-tax discount rate of 10% (2013: 10%) that reflects current market assessments of the time value of money and the risks specific to the asset. Management believes that currently, there is no reasonable possible change in discount rate which would reduce the Group's excess of recoverable amount over the carrying amount of the individual assets/CGU to Zero.

**(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% (2013: 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.

**11 INVESTMENT PROPERTY**

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

	<i>2014</i> <i>USD mm</i>	<i>2013</i> <i>USD mm</i>
Balance at 1 January	27	28
Change in fair value	(1)	(1)
	<hr/>	<hr/>
Balance at 31 December	<b>26</b>	<b>27</b>
	<hr/>	<hr/>

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 the 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. This valuation has resulted in a decrease in the fair value by USD 1million (31 December 2013: decrease of USD 1 million) which was charged to the consolidated income statement.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

## 12 INTEREST IN JOINT VENTURES

The following table summarises the statement of financial position of the joint ventures as at 31 December 2014:

	<i>EBGDGO</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>
Current assets	14	1	-	15
Non-current assets	108	-	1	109
Current liabilities	31	8	31	70
Non-current liabilities	69	-	-	69
<b>Equity</b>	<b>22</b>	<b>(7)</b>	<b>(30)</b>	<b>(15)</b>
<b>Group's share of net assets</b>	<b>8</b>	<b>(3)</b>	<b>(10)</b>	<b>(5)</b>

The following table summarises the income statement of the joint ventures for the year ended 31 December 2014:

Revenue	27	-	-	27
Profit before tax	0	-	(3)	(3)
<b>Loss for the year</b>	<b>0</b>	<b>-</b>	<b>(3)</b>	<b>(3)</b>
<b>Other comprehensive income</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>0</b>	<b>-</b>	<b>(3)</b>	<b>(3)</b>
<b>Group's share of loss for the year</b>	<b>0</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>

The Joint ventures had no contingent liabilities or capital commitments as at 31 December 2014 and 2013 except as disclosed in note 25.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**12 INTEREST IN JOINT VENTURES (continued)**

The following table summarises the statement of financial position of the joint ventures as at 31 December 2013:

	<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>
Current assets	8	1	-	9
Non-current assets	117	-	1	118
Current liabilities	27	7	28	62
Non-current liabilities	78	-	-	78
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Equity	20	(6)	(27)	(13)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Group's share of net assets	8	(3)	(9)	(4)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The following table summarises the income statement of the joint ventures for the year ended 31 December 2013:

Revenue	22	-	-	22
Profit before tax	(1)	-	(3)	(4)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Loss for the year	(1)	-	(3)	(4)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Other comprehensive income	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total comprehensive income for the year	(1)	-	(3)	(4)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Group's share of loss for the year	(0.4)	-	(1)	(1.4)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Reconciliation of summarized financial information**

Opening net investment as of 1 January 2013	8	(3)	563	568
Loss for the year	-	-	(1)	(1)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net investment as of 31 December 2013	8	(3)	562	567
Loss for the year	-	-	(1)	(1)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net investment as of 31 December 2014</b>	<b>8</b>	<b>(3)</b>	<b>561</b>	<b>566</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Out of the total investment of USD 566 million, investment of USD 561million relates to 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.

#### 12 INTEREST IN JOINT VENTURES (continued)

Commercial activity in CNGCL has not yet commenced. In July 2010, 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 Arbitration Tribunal has issued a Final Award for the merit phase of the proceedings, determining that the 25 year contract between it and NIOC is valid and binding upon the parties, and that NIOC has been obligated to deliver gas under the Contract since December 2005.

#### 13 INTEREST IN JOINT OPERATIONS

##### (a) Kurdistan Region of Iraq Project

On 15 May 2009, Dana Gas and Crescent signed a Share Sale Agreement with OMV and MOL wherein an equity interest of 5% each was sold by Dana Gas and Crescent to OMV and MOL respectively. Consequently, the new shareholding interest in Pearl Petroleum is as follows: 40% to Dana Gas, 40% to Crescent, 10% to OMV and 10% to MOL. In accordance with the terms of the Joint Venture Agreement dated May 15, 2009, the shareholders of Pearl Petroleum appointed Crescent and Dana Gas as Subcontract Operator to conduct the business of the Company on a no-profit, no-loss basis.

Pearl Petroleum and its shareholders since 18 May 2009 are engaged in an ongoing dialogue with the Ministry of Natural Resources ("MNR") of the Kurdistan Regional Government ("KRG") as to the interpretation of the agreement with the KRG ("the Authorisation").

Dana Gas, along with Crescent Petroleum and Pearl Petroleum (which holds petroleum rights in the Kurdistan Region of Iraq), commenced arbitration proceedings on 21 October 2013 at the London Court of International Arbitration (LCIA), in accordance with the Authorisation which was signed in April 2007 and is governed by English Law. The objective of the arbitration is to obtain confirmation of the long-term contractual rights for the development and marketing in respect of the Khor Mor and Chemchemal fields including the outstanding receivables owed by the MNR of the KRI.

On 21 March 2014, Dana Gas, along with Crescent Petroleum and Pearl Petroleum filed an interim measures application to the Tribunal. The companies were successful in their application to the Tribunal for interim measures and the Tribunal made an order on 10 July 2014 for the KRG to restore the previous regular payments to the companies as of 21 March 2014, the date of the application, and until the case is concluded. The KRG failed to comply with and challenged the tribunal's order, although since September 2014 the Company has been permitted to commence local sales of condensate and LPG to third parties. On 17 October 2014, the Tribunal dismissed the KRG's challenge and reaffirmed its order for interim measures of 10 July 2014. In addition, the Tribunal also ordered the KRG to pay the Consortium US\$ 100 million within a timeframe of 30 days.

In default of its legal obligations, the KRG failed to make payment by the stipulated deadline of 17 November 2014 and as a consequence, the Tribunal's order became peremptory in nature, enabling its enforcement by the English Court. With the Tribunal's permission, on 12th December 2014, an application to the English Court was made for the enforcement of the order, with the prospect of sanctions being imposed on the KRG for non-compliance. A hearing on the merits before the Tribunal is scheduled to take place in the week of 20 April 2015.

The ultimate outcome of any arbitration process is uncertain. The final outcome of the arbitration process may have an impact on the carrying value of certain assets and liabilities on the statement of financial position including determination, under the terms of the Authorisation, of any amounts which may become due to the KRG over and above Pearl Petroleum's entitlements. Pearl Petroleum and its shareholders have assessed the legal position with advice from their legal advisors and based on such legal advice are fully confident of the company's right under the Authorisation in accordance with applicable law. Accordingly, they believe that there should not be a material adverse impact on the state of the Company or the carrying values of its assets or liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**13 INTEREST IN JOINT OPERATIONS (continued)****(a) Kurdistan Region of Iraq Project (continued)**

The following amounts represent the Group's 40% share of the assets and liabilities of the joint operation:

	<i>2014</i> <i>USD mm</i>	<i>2013</i> <i>USD mm</i>
<b>Assets:</b>		
Non-current assets	316	329
Current assets	780	543
<b>Total Assets</b>	<u>1,096</u>	<u>872</u>
<b>Liabilities:</b>		
Current liabilities	40	18
<b>Net Assets</b>	<u>1,056</u>	<u>854</u>
 Income	 247	 230
Operating cost	(22)	(29)
Depreciation	(13)	(13)
<b>Gross profit</b>	<u>212</u>	<u>188</u>

**(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 1000 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:

	<i>2014</i> <i>USD mm</i>	<i>2013</i> <i>USD mm</i>
<b>Assets:</b>		
Non-current assets	20	21
Current assets	21	18
<b>Total Assets</b>	<u>41</u>	<u>39</u>
<b>Liabilities:</b>		
Current liabilities	-	-
<b>Net Assets</b>	<u>41</u>	<u>39</u>
 Income	 4	 5
Operating cost	(1)	(1)
Depreciation	(1)	(1)
<b>Gross profit</b>	<u>2</u>	<u>3</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

## 14 INVENTORIES

	<i>2014</i> <i>USD mm</i>	<i>2013</i> <i>USD mm</i>
Spares and consumables	63	71
Less: provision for impairment of inventory	(12)	(12)
	<u>51</u>	<u>59</u>

## 15 TRADE AND OTHER RECEIVABLES

	<i>2014</i> <i>USD mm</i>	<i>2013</i> <i>USD mm</i>
Trade receivables	992	795
Prepaid expenses	2	1
Due from joint ventures	15	11
Other receivables	46	44
Less: provision for impairment of other receivables	(6)	(6)
	<u>1,049</u>	<u>845</u>

The Group's share of trade receivables in Pearl Petroleum is in respect of condensate and LPG deliveries amounting to USD 746 million (2013: USD 515 million). The above does not include amounts invoiced by Pearl Petroleum to the KRG in respect of Excess Gas deliveries. Such amounts have not been included pending mutual agreement with the KRG regarding the commercial terms of such Excess Gas deliveries

Trade receivables are interest bearing. However, the interest amounts have not been included in the trade receivables. The general terms of credit are 30-60 days.

As at 31 December, the ageing analysis of trade receivables is as follows:

	<i>Total</i> <i>USD mm</i>	<i>Neither past due nor impaired</i> <i>USD mm</i>	<i>Past due but not impaired</i>				
			<i>&lt;30 days</i> <i>USD mm</i>	<i>30-60 days</i> <i>USD mm</i>	<i>61-90 days</i> <i>USD mm</i>	<i>91-120 days</i> <i>USD mm</i>	<i>&gt;120 days</i> <i>USD mm</i>
<b>2014</b>	<b>992</b>	<b>113</b>	<b>17</b>	<b>51</b>	<b>64</b>	<b>52</b>	<b>695</b>
2013	795	125	20	41	56	24	529

## 16 AVAILABLE-FOR-SALE FINANCIAL ASSET

	<i>2014</i> <i>USD mm</i>	<i>2013</i> <i>USD mm</i>
At 1 January	100	255
Disposal	(23)	(135)
Change in fair value for the year (note 21)	(26)	(20)
	<u>51</u>	<u>100</u>

The Group holds 1,136,116 ordinary shares in MOL (31 December 2013: 1,486,116 shares) received as consideration for the disposal of an interest in Pearl Petroleum in 2009. These shares are listed on the Budapest Stock Exchange and have been fair valued with reference to published price quotation at 31 December 2014. On 22 September 2014, the Group sold 350,000 shares out of its total shareholding of 1,486,116 shares in MOL, at an average price of USD 51.27 per share (USD 18 million) through a private placement with settlement taking place on 2 October 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2014</b> <b>USD mm</b>	<b>2013</b> <b>USD mm</b>
Balance at 1 January	8	10
Investment redeemed during the year	-	(2)
Change in fair value	1	-
	<u>9</u>	<u>8</u>
Balance at 31 December	<u>9</u>	<u>8</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 2014.

**18 CASH AND CASH EQUIVALENTS**

	<b>2014</b> <b>USD mm</b>	<b>2013</b> <b>USD mm</b>
Cash at bank and on hand		
- Local Banks within UAE	28	9
- Foreign Banks outside UAE	6	20
Short term deposits		
- Local Banks within UAE	76	175
- Foreign Banks outside UAE	74	-
	<u>184</u>	<u>204</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 short-term deposits is USD 184 million (2013: USD 204 million). The effective profit rate earned on short term deposits ranged 0.45% to 2.0% (2013: 1.25% to 2.5%) per annum. As at 31 December 2014, 56% (2013: 90%) of cash and cash equivalents were held with UAE banks and 42% was held in Egyptian pounds.

**19 SHARE CAPITAL**

	<b>2014</b> <b>USD mm</b>	<b>2013</b> <b>USD mm</b>
<i>Authorised:</i>		
6,960,981,188 (2013: 6,602,001,300) common shares of AED 1 each (USD 0.2728 each)		
<i>Issued and fully paid up:</i>		
6,960,981,188 (2013: 6,602,001,300) common shares of AED 1 each (USD 0.2728 each)	<u>1,899</u>	<u>1,801</u>

The conversion period for Exchangeable sukuk issued on 8 May 2013 commenced on 31 October 2013 and will expire 25 trading days prior to the scheduled redemption date of 31 October 2017. During this period sukuk holders have the right to convert all or part of the Exchangeable sukuk into ordinary shares of the Company. During the year 2014, the Company received voluntary early conversion notices for the Exchangeable sukuk amounting to USD 72,926,080. Accordingly, 357,094,708 ordinary shares calculated at a conversion price of AED 0.75 (nominal value of AED 1) were required to be delivered to satisfy the said voluntary early conversion notices. As of 31 December 2014, all the required ordinary shares of the Company were issued to satisfy the notices.

The difference between the conversion price of AED 0.75 and nominal value of AED 1 calculated on ordinary shares issued up to 31 December 2014 was debited to Exchangeable bonds – equity component reserve.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**20 STATUTORY AND LEGAL RESERVE**

	<i>Statutory reserve USD mm</i>	<i>Legal reserve USD mm</i>
At 1 January 2013	65	65
Transfer from net profit for the year	15	15
At 31 December 2013	80	80
Transfer from net profit for the year	13	13
<b>At 31 December 2014</b>	<b>93</b>	<b>93</b>

**a) LEGAL RESERVE**

In accordance with the Articles of Association of the Company and U.A.E. Federal Commercial Companies Law Number 8 of 1984, as amended, the Group has established a legal reserve by appropriation of 10% of the Group's net profit for each year. The allocation will cease when the reserve equals 50% of the Company's paid up capital.

**b) STATUTORY RESERVE**

As per the Article of Association of the Company, 10% of the Group's net profit for each year will be allocated to Statutory reserve. Such allocation will cease by the decision of the Ordinary General Assembly as recommended by the Board of Directors or when the total reserve equals 50% of the Company's paid up capital.

**21 OTHER RESERVES**

	<i>Share based reserve USD mm</i>	<i>Fair value reserve USD mm</i>	<i>Total USD mm</i>
At 1 January 2013	12	73	85
Disposal of available-for-sale financial asset (note 16)	-	(39)	(39)
Change in fair value of available-for-sale financial asset (note 16)	-	(20)	(20)
Transfer to retained earnings (note 26)	(10)	-	(10)
At 31 December 2013	2	14	16
Disposal of available-for-sale financial asset (note 16)	-	(3)	(3)
Change in fair value of available-for-sale financial asset (note 16)	-	(26)	(26)
Shares issued to employees (note 26)	(1)	-	(1)
<b>At 31 December 2014</b>	<b>1</b>	<b>(15)</b>	<b>(14)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**22 BORROWINGS**

	<b>2014</b> <b>USD mm</b>	<b>2013</b> <b>USD mm</b>
<b>Non-current</b>		
Ordinary Sukuk	<b>425</b>	425
Exchangeable Sukuk	<b>323</b>	390
<b>Total borrowings</b>	<b>748</b>	815

**a) EXCHANGEABLESUKUK**

In October 2007, the Group arranged to issue convertible Sukuk-al-Mudarah (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 drawn up to conform to the principles of Islamic Sharia, were approved by the Company's shareholders at an Extraordinary General Meeting held in July 2007. Pursuant to the conditions of the Sukuk, the proceeds were used for the acquisition and development of assets (the "Mudarah Assets") owned by Dana LNG Ventures Limited. The Sukuk matured on 31 October 2012 and had a profit rate of 7.5% payable quarterly from profits of the Mudarah Assets. In 2008, Dana Gas purchased some of the Sukuk from the market with a nominal value of USD 80 million.

The Company announced on 10 December 2012 that a standstill and lockup agreement has been reached with an "Ad-Hoc committee" of Sukuk certificate holders for a refinancing transaction (the "Transaction") in relation to the Sukuk. The standstill and lockup agreement also includes a detailed set of terms, conditions and implementation schedule.

The Company launched the consent solicitation on 26 March 2013 to seek Sukuk holders consent in a meeting of Sukuk Certificate holders ("Sukuk holders EGM") to be held on 23 April 2013. Also, the Company issued an invitation to its Shareholders to attend the Extra Ordinary General Assembly ("Shareholders EGM") to consider and approve the Sukuk deal.

On 23 April 2013, both Sukuk holders EGM and Shareholders EGM approved the Sukuk refinancing deal. On 8 May 2013 successful completion was achieved and the Company made the cash pay-down of USD 69.9 million and paid the accrued profit from 31 October 2012 to 7 May 2013 amounting to USD 38.4 million. Following this, the Company also perfected the required securities and issued a compliance certificate dated 10 July 2013.

The salient features of the agreement were a reduction in the Company's outstanding Sukuk amount 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 will be split into two tranches being a USD 425 million Ordinary sukuk and USD 425 million Convertible Sukuk (together the "New Sukuks"), each with 5-year maturity to ensure long term financing. The Ordinary Sukuk and Convertible Sukuk have a profit rate of 9% and 7% per annum, respectively.

The Ordinary and Exchangeable 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 Sukuks 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.

As per the agreement, the conversion rate for the Exchangeable sukuk was set at a 50% premium to the 75 calendar day volume-weighted average price, measured over a period commencing on 1 December 2012 (with a floor of AED 0.75 and cap of AED 1.00). The initial effective exchange price for the exchangeable sukuk was determined on 13 February 2013 and has been fixed at AED 0.75 per share (floor price). The Company has the option to pay down the outstanding principal amount of the New Sukuks prior to the new maturity date of 31 October 2017, subject to the applicable call premium on the Ordinary Sukuk and the soft call provisions on the Exchangeable Sukuk. The Exchangeable sukuk at the option of the certificate holders can be exchanged into ordinary shares of the Company on or after 31 October 2013 until 25 trading days prior to the Scheduled Redemption Date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**22 BORROWINGS (continued)**

During the period from 1 January 2014 to 31 December 2014, the Company received conversion notices for the Exchangeable sukuk amounting to USD 72.9 million (please refer note 19 for details).

The Exchangeable sukuk recognised in the statement of financial position is calculated as follows:

	<i><b>2014</b></i>
	<i><b>USD mm</b></i>
Liability component as of 1 January 2014	<b>390</b>
Exchangeable sukuk converted into shares	<b>(73)</b>
Finance expense for Exchangeable sukuk	<b>32</b>
Profit paid	<b>(22)</b>
	<b>327</b>
Current portion of profit classified under trade payables and accruals	<b>(4)</b>
	<b>323</b>
Liability component at 31 December 2014	<b>323</b>

The conversion option embedded in the convertible instrument is valued at the issuance of the Exchangeable sukuk and disclosed separately under Equity.

**23 PROVISIONS**

	<i><b>2014</b></i>	<i><b>2013</b></i>
	<i><b>USD mm</b></i>	<i><b>USD mm</b></i>
Asset decommissioning obligation	<b>17</b>	<b>15</b>
Employee's end of service benefits	<b>2</b>	<b>2</b>
	<b>19</b>	<b>17</b>

The movement in asset decommissioning obligation during the year relates to Unwinding of discount.

**24 TRADE PAYABLES AND ACCRUALS**

	<i><b>2014</b></i>	<i><b>2013</b></i>
	<i><b>USD mm</b></i>	<i><b>USD mm</b></i>
Trade payables	<b>33</b>	<b>59</b>
Accrued expenses and other payables	<b>73</b>	<b>70</b>
Profit accrued on Sukuk	<b>11</b>	<b>12</b>
Advance against local sales in KRI (40% share)	<b>18</b>	<b>-</b>
	<b>135</b>	<b>141</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

### 25 CONTINGENCIES AND COMMITMENTS

#### (a) 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 discovery volumes equal or in excess of 1Tcf of Proved Reserves. 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.

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. Dana Gas Egypt had to pay a signature bonus of USD 5 million to the Egyptian Natural Gas Holding. This amount payable was offset against the outstanding receivables in January 2015.

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. As per the terms of the agreement under finalisation 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. In the event that the well proves commercial, BP has the option to acquire 50% in the deep potential of some of Dana Gas’ adjacent Development leases. 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. Dana Gas Egypt had to pay a signature bonus of USD 7.5 million (50% share) to the Egyptian Natural Gas Holdings. This amount payable was offset against outstanding receivables in January 2015.

Capital expenditure contracted for at 31 December 2014 but not yet accrued amounted to USD 3 million.

#### (b) Sharjah Western Offshore

Capital expenditure contracted for at 31 December 2014 but not yet accrued amounted to USD 61 million (2013: USD 14 million).

### 26 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 units granted and the grant date fair value. The Group has made no restricted share awards to key employees during the year and the charge relates to restricted shares issued in lieu of previously held options and previously issued restricted shares.

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

	<i>2014</i> <i>USD mm</i>	<i>2013</i> <i>USD mm</i>
Expense arising from share-based payment transactions	-	4

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**27 RELATED PARTY DISCLOSURES**

Transactions with related parties included in the consolidated income statement are as follows:

	<b>2014</b>		<b>2013</b>	
	<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 ventures	<b>1</b>	<b>2</b>	1	2
Major shareholders	-	<b>1</b>	-	1
	<u>1</u>	<u>3</u>	<u>1</u>	<u>3</u>

The remuneration to the Board of Directors has been disclosed in the consolidated statement of changes in equity.

**Compensation of key management personnel**

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

	<b>2014</b>	<b>2013</b>
	<i>USD mm</i>	<i>USD mm</i>
Short-term benefits	<b>4</b>	4
Restricted Shares	-	2
	<u>4</u>	<u>6</u>

**28 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 review and agree 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 available for sale financial assets which are denominated in Hungarian Forint (HUF) and its cash balance in Egyptian pounds held in Egypt with local banks.

At 31 December 2014, if the HUF had strengthened/weakened by 10% against the USD with all other variables held constant, total comprehensive income for the year would have been USD 5 million higher/lower (2013: USD 10 million), as a result of foreign exchange gains/losses on translation of HUF denominated available-for-sale financial asset.

At 31 December 2014, if the Egyptian pounds had strengthened/weakened by 10% against the USD with all other variables held constant, total comprehensive income for the year would have been USD 8 million higher/ lower, 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. The Group's bonds carry fixed profit rate and hence are not exposed to profit rate risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Financial risk factors (continued)****(c) Equity price risk**

The Group is exposed to equity securities price risk in relation to the investments held by the Group and classified as available-for-sale financial assets. The Group's investment is in equity of an entity which is publicly traded on Budapest Stock exchange. As at 31 December 2014, if the equity price had increased/decreased by 10% with all other variables held constant the Group's comprehensive income for the year would have been USD 5 million higher/lower (2013: USD 10 million).

**(d) 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 for sale of natural gas which constitute approximately 28% of the Group's revenue. At 31 December 2014, if the average price of crude oil for the year had increased/decreased by 10% with all other variable held constant the Group's comprehensive income for the year would have been US\$ 34 million higher/lower (2013: US\$ 33 million).

**(e) 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 receivables 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 15.

**(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 2014 is the carrying amount as illustrated in note 18.

**(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 2014**

	<i>On demand USD mm</i>	<i>Less than 3 months USD mm</i>	<i>3 to 12 months USD mm</i>	<i>1 to 5 years USD mm</i>	<i>&gt;5 years USD mm</i>	<i>Total USD mm</i>
Borrowings (including profit)	-	5	47	903	-	955
Trade payables and accruals	-	135	-	-	-	135
Provisions	3	-	-	4	16	23
	<u>3</u>	<u>140</u>	<u>47</u>	<u>907</u>	<u>16</u>	<u>1,113</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****(e) Liquidity risk (continued)**

Year ended 31 December 2013

	<i>On demand USD mm</i>	<i>Less than 3 months USD mm</i>	<i>3 to 12 months USD mm</i>	<i>1 to 5 years USD mm</i>	<i>&gt;5 years USD mm</i>	<i>Total USD mm</i>
Borrowings (including profit)	-	5	51	1,037	-	1,093
Trade payables and accruals	-	141	-	-	-	141
Provisions	3	-	-	3	22	28
	<u>3</u>	<u>146</u>	<u>51</u>	<u>1,040</u>	<u>22</u>	<u>1,262</u>

**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 2014 and 31 December 2013. Capital comprises share capital, retained earnings, other reserves and equity component of convertible bonds, and is measured at USD 2,521 million as at 31 December 2014 (2013: USD 2,380 million).

**29 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 2014 USD mm</i>	<i>Fair value 2014 USD mm</i>	<i>Carrying amount 2013 USD mm</i>	<i>Fair value 2013 USD mm</i>
<i>Financial assets</i>				
Available for sale financial asset	51	51	100	100
Trade and other receivables	1,049	1,049	845	845
Cash and short term deposits	184	184	204	204
<i>Financial liabilities</i>				
Borrowings	748	748	815	815
Trade payables and accruals	135	135	141	141

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

**29 FAIR VALUE ESTIMATION (continued)**

The following table presents the Group' assets that are measured at fair value on 31 December 2014:

	<i>Level 1 USD mm</i>	<i>Level 2 USD mm</i>	<i>Level 3 USD mm</i>	<i>Total USD mm</i>
<b>Assets</b>				
Available for sale financial asset				
- Equity securities	<b>51</b>	-	-	<b>51</b>
Financial assets at fair value through profit or loss	-	<b>9</b>	-	<b>9</b>
Investment property	-	-	<b>26</b>	<b>26</b>
<b>Total</b>	<b>51</b>	<b>9</b>	<b>26</b>	<b>86</b>

The following table presents the Group' assets that are measured at fair value on 31 December 2013:

	<i>Level 1 USD mm</i>	<i>Level 2 USD mm</i>	<i>Level 3 USD mm</i>	<i>Total USD mm</i>
<b>Assets</b>				
Available for sale financial asset				
- Equity securities	100	-	-	100
Financial assets at fair value through profit or loss	-	<b>8</b>	-	<b>8</b>
Investment property	-	-	<b>27</b>	<b>27</b>
<b>Total</b>	<b>100</b>	<b>8</b>	<b>27</b>	<b>135</b>

There have been no transfers between Level 1 and Level 2 during the years 2014 and 2013.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1 and comprises of Budapest Stock Exchange (BSE) equity investments classified as available-for-sale financial asset.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

## 30 FINANCIAL INSTRUMENTS BY CATEGORY

	<i>Loans &amp; receivables</i>	<i>Assets at fair value through the profit and loss</i>	<i>Available- for-sale financial asset</i>	<i>Total</i>
	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>
<b>31 December 2014</b>				
<b>Assets as per Statement of Financial Position</b>				
Available-for-sale financial asset	-	-	51	51
Trade and other receivables excluding pre-payments	1,047	-	-	1,047
Financial assets at fair value through profit or loss	-	9	-	9
Cash and cash equivalents	184	-	-	184
<b>Total</b>	<b>1,231</b>	<b>9</b>	<b>51</b>	<b>1,291</b>

	<i>Liabilities at fair value through the profit and loss</i>	<i>Derivatives used for hedging</i>	<i>Other financial liabilities at amortised cost</i>	<i>Total</i>
	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>
<b>31 December 2014</b>				
<b>Liabilities as per Statement of Financial Position</b>				
Borrowings	-	-	748	748
Provisions	-	-	19	19
Trade payable and accruals excluding statutory liabilities	-	-	135	135
<b>Total</b>	<b>-</b>	<b>-</b>	<b>902</b>	<b>902</b>

	<i>Loans &amp; receivables</i>	<i>Assets at fair value through the profit and loss</i>	<i>Available- for-sale financial asset</i>	<i>Total</i>
	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>	<i>USD mm</i>
<b>31 December 2013</b>				
<b>Assets as per Statement of Financial Position</b>				
Available-for-sale financial asset	-	-	100	100
Trade and other receivables excluding pre-payments	844	-	-	844
Financial assets at fair value through profit or loss	-	8	-	8
Cash and cash equivalents	204	-	-	204
<b>Total</b>	<b>1,048</b>	<b>8</b>	<b>100</b>	<b>1,156</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

30 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 2013				
Liabilities as per Statement of Financial Position				
Borrowings	-	-	815	815
Provisions	-	-	17	17
Trade payable and accruals excluding statutory liabilities	-	-	141	141
Total	-	-	973	973