



Dubai: UAE-based energy exploration giant Dana Gas, which raised Dhs 3.67 billion in 2007, invested nearly Dh1.1 billion in energy exploration in recent months, the company's executive chairman Hamid Jafar said in an interview with *Gulf News*.

Despite the current market conditions where energy demand is stabilising, the company is expanding its operations in the region.

"Oil prices have since fallen from last year's peaks of around \$150 per barrel to \$50 per barrel, the world economy is under huge strain at the moment and it is impossible to predict when markets will start to stabilise," Jafar said.

"Naturally, the Middle East, North Africa and South Asia (MENASA) region in which we operate is not immune to the downturn, although we are starting to see signs of a tentative recovery.

"The Middle East gas sector has been least impacted by the slowdown."

Dana Gas is one of the first privately-held energy giants in the Gulf region, and is becoming an increasingly important player in energy exploration, with major project concentration in Iraq and Egypt.

In an exclusive interview he elaborated on his company's performance and the energy industry.

***Gulf News: What is the future of the energy industry, as demand has been falling?***

Hamid Jafar: There has been a slowdown in energy demand and we are seeing that investors are taking a somewhat more cautious approach and putting oil and gas projects on hold until market conditions improve. Nevertheless, the Middle East gas sector has been least impacted by the slowdown in energy investment, with strong growth in demand and opportunities continuing.

***How do you rate your company's performance in facing the challenges?***

From an operations perspective, Dana Gas is in a strong position to continue its growth. We are properly funded, thanks to our \$1 billion [Dh3.67 billion] sukuk in 2007 and we have a solid and expanding asset base that is generating cash, so we will continue to pursue the strategy that we have followed since inception. And, of course, as a natural gas company, we are partially hedged against fluctuations in the price of oil as we have a large portion of our production sold on long-term, fixed-rate contracts, so that affords us some degree of protection.

***How are your projects in Egypt and Iraq progressing? When are you going to begin production in these fields?***

Overall, [we expect] a growth in production of over 70 per cent in 2009, inshallah. We anticipate the first train of our LPG [liquefied petroleum gas] plant in the Kurdistan region of Iraq will come on stream in the second half of 2009, which will take gross gas production to 150 million cubic feet per day [mmscfd] of gas. The second train, which will take gross gas production up to 300 mmscfd, is coming on stream in late 2009. Production in Egypt achieved a year-end exit rate of 31,640 barrels of oil equivalent [boe] per day with a total annual production of 10.5 million barrels of oil equivalent [mmboe]. Our production in 2009 will increase as a result of our new discoveries in Egypt. We have already brought the El Basant discovery on stream [production started on March 31] and this field will take our production to the 160 mmscfd capacity of our existing gas processing plant in Egypt. We will be evaluating optimal ways to expand the capacity of this plant.

***Could you kindly update us on the progress in exploration in Egypt?***

Our latest discovery was made in the West Qantara Concession, Salma-1, which is expected to add up to 230 billion cubic feet of gas reserves, a significant boost to the value of our Egyptian assets. This discovery is in addition to the earlier rich gas discoveries in El Basant-1 and 2 that added 158 billion cubic feet of gas plus condensates, enhancing the company's reserves and representing an excellent 362 per cent reserves replacement ratio, based on proved and probable reserves for the year. In 2008 the company's total petroleum reserves in Egypt increased to 158 mmboe from 86 mmboe in 2007 - an increase of 84 per cent. Our success with the drill bit has continued in 2009 with the discovery of the Azhar and Sondos fields, which will enable us to increase our booked reserves in 2009, providing a solid platform for future growth of the company's production and revenues.

***Can you say what other projects you have under way?***

Our exploration success in Egypt is of course one area of focus. The success here has the potential to double the size of our business and production rate within the next two years. We will announce our plans in due course. Following this success we are continuing with our exploration drilling in Egypt and plan to drill 14 wells. In addition to our drilling operations, we are leading a consortium to build and operate a liquid natural gas extraction plant in the Ras Shukeir area of the Gulf of Suez, in partnership with EGAS and Apicorp. Also, we are proud to be developing, with the government of Egypt, the Egypt Gas City Project, which will increase the benefits to the local population from gas through maximum job creation and investment for sustainable economic growth. This project aims to promote a range of corporate social responsibility initiatives, which we intend will become part of a self-sustaining Gas City.

Our activities in the Kurdistan region of Iraq are progressing extremely well and we are currently undertaking appraisal drilling in two further locations, at Khor Mor and Chemchemal. We are very excited about the potential for Dana Gas in the Kurdistan region of Iraq, which is peaceful and where general economic activity is growing rapidly, so we anticipate further developments there in the near future.

***How much did Dana Gas invest in exploration last year?***

The company made investments of Dh765 million and Dh325 million in respect of capital expenditure in the Kurdistan Project and Egypt, respectively.

*You have quite ambitious expansion plans for the near future. Do you have sufficient financial reserves to be able to fund these projects, or will you need to obtain additional capital?*

As at December 31, the group's cash and bank balance stood at Dh789 million and during the year we generated an EBITDA [earnings before interest, taxes, depreciation and amortisation] of Dh575 million. Dana Gas has sufficient cash and future cash flows to fund immediate planned expenditure and to service the sukuk, and we are constantly fine-tuning our long term financial strategy in view of market conditions and opportunities.

We do have ongoing capital projects to continue our growth and can also focus on controlling our costs. Also, as operator of our projects, we can control the timing of our expenditures.

***Can you say more about your development plans for the current year?***

Our target is to increase production by more than 70 per cent to 68,000 boe per day by the year-end. This is primarily from our planned increase in production in

Kurdistan to 300 mmscfd and new discoveries in Egypt. We plan to continue to develop new projects and expand our operations until they effectively span the gas value chain. We will continue to pursue our policy of achieving growth through a combination of organic development supplemented by strategic acquisitions of assets and companies that are sensibly priced, meet our business criteria and to which we can add value. To do this effectively, we will need to maintain best management practices and keep a tight control on costs. We have already begun the process of implementing our five-year strategic plan and this will continue during the course of the year. It is our stated intention to be the partner of choice in the region, for governments as well as state companies and foreign organisations, and we will continue to pursue this goal.

***How far have you progressed with the development of the Gas City in Egypt and do you plan to create more of these facilities?***

The Gas City concept is designed to promote private sector investment in a variety of gas-related industries to benefit the country's citizens further through training, job creation, and the promotion of general economic activity. We have received strong support for this project from policymakers throughout the MENASA region, who see it as an imaginative development solution.

In Iraq, in addition to the Kurdistan Gas City, we have been approached by two other local authorities to discuss replication of the concept, in Anbar to the west and Basra in the south.

Over time, we expect the project to create some 200,000 productive jobs, both directly and indirectly, through infrastructure, industry, support services and other business activities.

***Dana Gas has been in an acquisition spree recently. How strong is your appetite?***

Certainly, our strategy is to grow through a balance of both organic growth and selected targeted acquisitions. We will continue to look at the acquisition of both assets and corporations that we believe will enhance our portfolio and to which we can add value through our strong management and highly skilled team of experts. We see no reason to be deterred by current conditions, especially as many assets in our sector are being traded at distressed prices, provided we can strike the right commercial framework and the target meets our strict criteria.