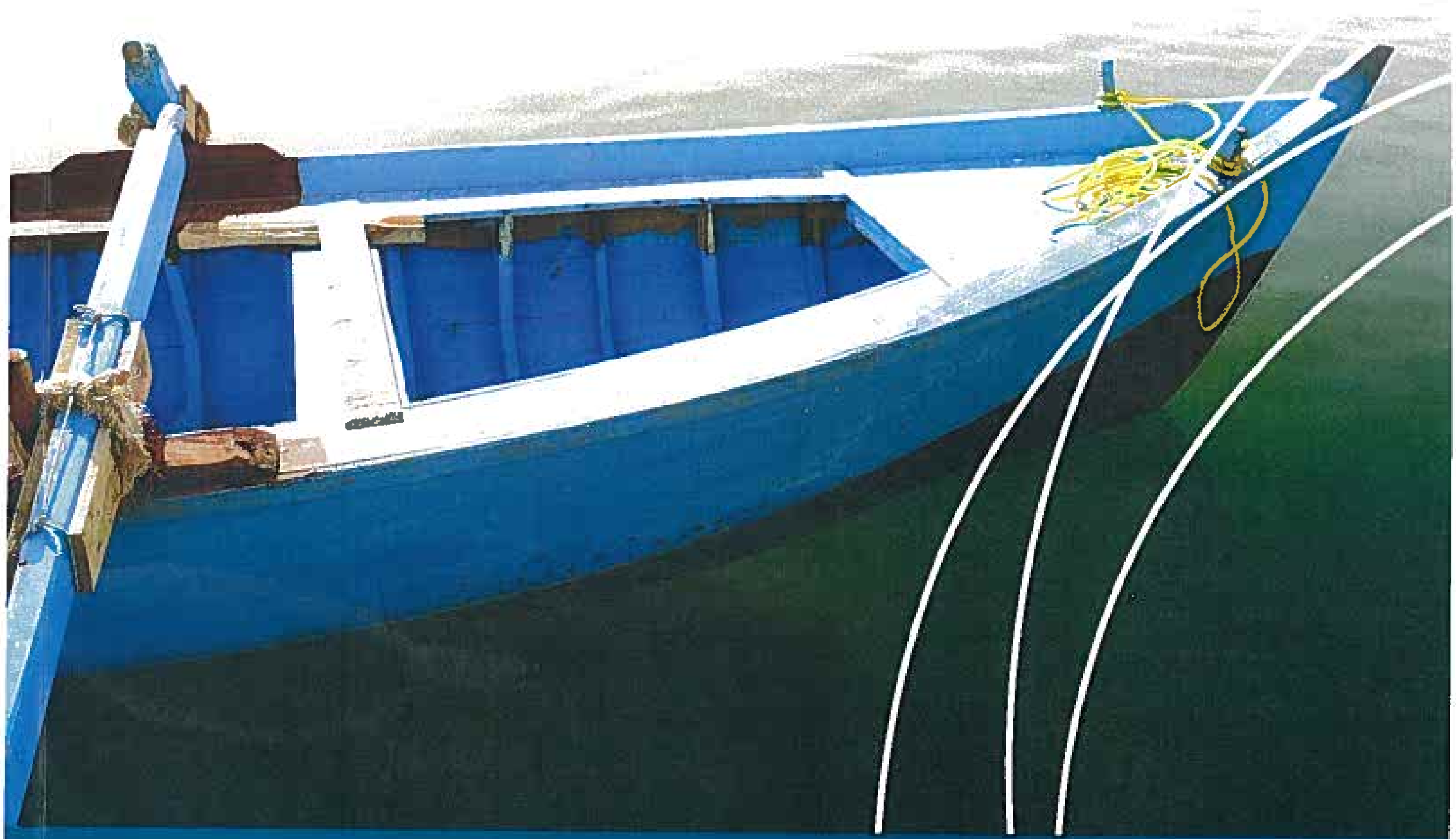
Corporate Governance Success Stories

IFC Advisory Services in the Middle East and North Africa

In partnership with the United States, the United Kingdom, Japan, the Islamic Development Bank, Canada, Netherlands, Kuwait, France, Switzerland, Denmark, Yemen, Visa International, and the OPEC Fund for International Development.



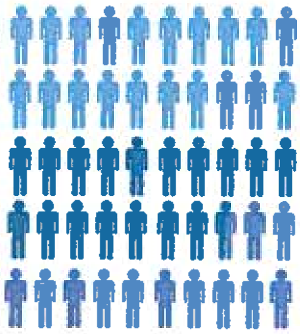
IFC | International Finance Corporation
World Bank Group

BUSINESS: Natural gas producer, focusing on upstream activity.
LOCATION: UAE
SECTOR: Energy
2008 REVENUE (YR GROWTH): $ 311 million (+10%)
 # EMPLOYEES: : 400
TYPE: Publicly Traded (Abu Dhabi)
IFC ASSESSMENT DATE: Apr 2006

Dana Gas

OWNERSHIP PROFILE

Founding Investors: 40%
Public Float: 35%
Private Investors: 25%



Dana Gas was founded in 2005 and is the first regional, private sector natural gas resource enterprise established in the gulf area. It was started by Crescent Petroleum and other strategic investors to pursue particular opportunities in the gas sector. Today, the company's primary focus is on upstream activities in the gas sector. In all, their business focuses on: Natural gas ownership through long term supply agreements; onshore/offshore gas transmission; gas processing; sale of dry gas to Federal and State-owned utilities and other large industrial natural gas consumers in the UAE; and sale of associated petroleum liquids and other related products in the international markets.

Driven by the vision and leadership of its Chairman, Mr. Hamid Jafar, and its board of directors, Dana Gas, within a very short time of its founding, became a listed entity (Abu Dhabi exchange) via a successful, oversubscribed IPO. The core founders (comprised of prominent individuals and institutions mainly across the Gulf) of Dana Gas hold 40% of the Company's equity.

Dana Gas currently holds assets and contractual entitlements to the largest private sector integrated natural gas supply chain in the Gulf. Looking forward, the company plans to expand throughout the Gulf as well as the wider Middle East, North Africa and South Asia (MENASA) region.

WHY CHANGE?

The leadership of Dana Gas had set as one of its goals the attainment of best practice standards in corporate governance. Dana not only sought to separate itself from its founding company, Crescent, as a fully independent and self-sustaining organization, but it also wanted to build a strong brand name in the gas sector. A further push came in 2007 when Dana Gas issued about $1bn in convertible bonds in the UK market, increasing the need for a review of its governance practices. This helped finance the acquisition of Centurion Petroleum in Egypt, which served as a major strategic milestone for Dana Gas.

WHAT DID THEY CHANGE?

IFC, in conjunction with Nestor Advisors, conducted an assessment for Dana Gas in April 2006. The primary focus of the changes pursued by the company were aimed at improving board effectiveness, strengthening elements of their control environment, and bringing their transparency and disclosure practices in line with international standards. They made both composition and structural changes at the board level and took steps to create more active committees. They made perhaps their most significant changes at the management level, separating the Chairman/CEO position and putting in place key senior executives (e.g., CFO, IT, HR, Legal). These changes have helped Dana Gas operate fully independently of its founding company in a very short time.

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DANAGAS

Summary of Key Changes: Dana Gas

	KEY CHALLENGES	KEY CHANGES
BOARD EFFECTIVENESS	**Composition & Roles:** Board had sixteen members, with just one executive who is the Chairman/CEO; all others were non-execs. Had a good mix of skills on the board, but needed to clarify its roles and responsibilities.	**Composition & Roles:** They added four new members to the board, including two executives to total 18 members; 10 of which are independent. They refined roles of board and its committees in formal charters with clearer terms of reference and director duties.
		Chairman/CEO: The company separated the role of Chairman/CEO with the Chairman resigning his executive duties (focusing on his board chairman duties). The company has hired a new CEO.
	Structure: Company had established four committees: Audit & Compliance, Executive, Compensation, and Business Development. They needed to refine scope and functioning of committees.	**Structure:** They now have three committees with Audit & Compliance, combined Business Development and Executive into a Steering Committee, and expanded Remuneration to include Corporate Governance. The committees function more actively and the Board meets every six weeks with a focused agenda including formal committee reports.
		Advisory Board: Setup an international Advisory Board (after founding) consisting of highly accomplished, former industry executives. The advisory group meets twice annually to provide strategic advice to the Board and Management and also helps develop strategic business relationships when needed.
	Procedures: The Board met four times a year as a whole board, but committees did not actively meet. They had extremely lengthy agendas for the meetings. Corporate Secretary was appointed, but needed better definition. There was no annual evaluation of the board.	**Procedures:** With more active committees, general board meetings are more efficient; formalized many of the work proceedings including standard reports to the Board.
MANAGEMENT CONTROL	**Internal Audit:** The IA function was somewhat limited in their scope and did not report to the board directly.	**Internal Audit:** Hiring an Internal Auditor and expanding the role of the Internal Audit function to ensure coverage of financial and operational activities; reports independently to the Board.
	Risk Management: Lacked a formal risk management system and needed to sharpen focus and monitoring of project risks.	**Risk Management:** Engaged firm to conduct risk assessment and establishing more formal risk management processes throughout the company; increased level of reporting on risk – especially in projects – and improved discussion of risks at management meetings.
	Internal Control: As a new company, they required improved documentation and training on internal controls in both financial and operational processes and an improved level of automated controls.	**Internal Control:** Improved level of documentation of controls in financial and operational functions; redesigned key processes to strengthen checks and balances and improved level of automation of controls.
		Management Team Changes: Put in place key senior executives including CFO, HR, IT, Legal; overseen by the new CEO (recently separated from Chairman position).
		Performance Monitoring: Strengthened their management oversight processes by formalizing internal management meetings and oversight procedures.
DISCLOSURE & TRANSPERANCY	**Disclosures:** Disclosures were limited to what is required by a publicly listed company; sought to become best-in-class, but lacked information about the company's business performance and elements of its governance framework.	**Investor Relations & Disclosures:** Setup formal IR function to help improve company transparency and outreach to shareholders, investors, and the public. Upgraded disclosures on its website to include more candid company information. They proactively conduct investor road shows and other industry outreach activities and setup an IR office in the UK.

Impact Report: Dana Gas

DANA GAS REPORTED THE FOLLOWING IMPACTS ABOUT TWO YEARS AFTER FIRST EMBARKING ON ITS KEY GOVERNANCE CHANGES.

- **The overall changes played a significant factor in helping Dana Gas access about $1.5 billion in financing the past two years.** Banks inquired heavily into the company's corporate governance practices and structures during the financing and the changes reportedly helped comfort the banks in their decision.

- **Reputation of the company has improved dramatically,** due to efforts of the new investor relations function and the improved transparency practices. Dana's brand recognition and image has been heightened both regionally and internationally and they have received very positive feedback from investors and shareholders.

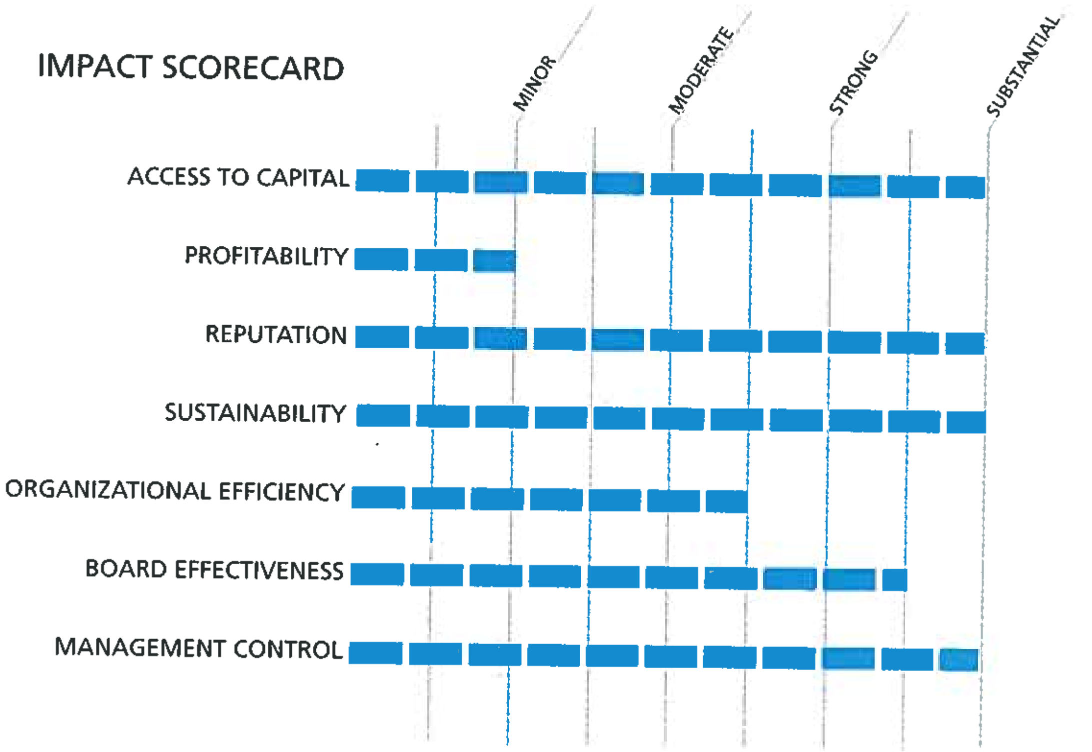
- **The improvements have helped avoid unnecessary losses for the company,** especially with regard to related party transactions. There is more transparency in major transactions, so the Board can ensure they are being competitively sourced.

- **Board of Directors is much more efficient and effective now** with in-depth discussions and better decision-making. Committee structures and new working procedures have improved time utilization.

- **Organizational efficiency and effectiveness has improved significantly.** Processes are more streamlined and automated with less manual processing and embedded controls. They report operating as a formal, well-structured company rather than a start-up despite being relatively young.

- **Management control and risk management has been substantially strengthened** with a sharper focus on risk and more formal processes and controls in place. Performance monitoring is much more active and effective given the new internal reporting activities and the level of transparency through the entire organization is at a high level.

IMPACT SCORECARD



$ FINANCING ACCESSED $1.5 bn in debt over the past 24 months.
(WHERE CG WAS MAJOR FACTOR)