Ministry of Industry and Commerce

وزارة الصناعة والتجارة

CORPORATE GOVERNANCE

GUILDLINES

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CONTENTS

Introduction

Corporate Governance is one of the most important topics for all local and global companies in the present time, due to the financial crises that the global economy has suffered from, the concept of corporate governance has been placed on the front line among the priorities.

Governance systems and laws around the world focus on limiting the use of administrative authority in a manner that is not in the interest of shareholders, it also works towards activating the performance of boards of directors in those companies, as well as strengthening internal control, following up on the implementation of strategies, and defining the roles and authorities of each shareholder, the board of directors, the executive management, and stakeholders. In addition to stressing on the importance of transparency and disclosure.

Ministry of Industry and Commerce

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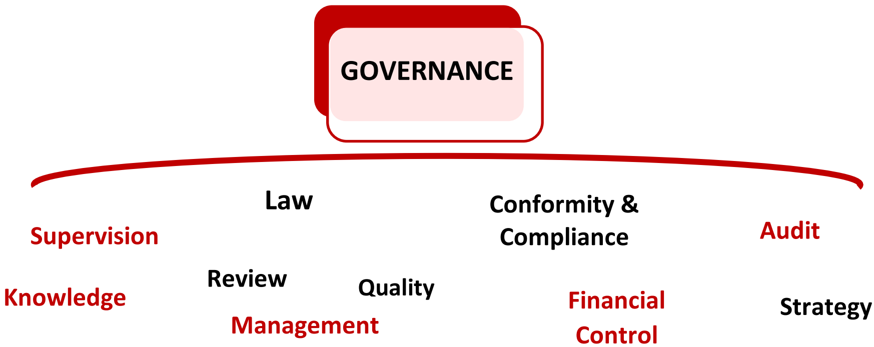
Corporate Governance Guidelines

Corporate Governance Definition

A methodology to lead, guide and control the company's business, It includes mechanisms to regulate the various relationships between the board of directors, executives, shareholders and stakeholders by establishing special rules and procedures to facilitate decision making as well as follow-up foundations to evaluate and monitor performance and to ensure transparency and credibility, for the purpose of protecting the rights of shareholders and stakeholders and achieving justice, competitiveness and transparency.



Legislative and Control Framework for Governance

The Companies Control Directorate that linked to the Assistant Undersecretary, Commercial Registration and Companies assures the extent to which companies comply with the relevant laws, rules and regulations that govern the corporate sector in Bahrain.

The Directorate performs a group of tasks, include:

- Overseeing the work of verifying companies' implementation of corporate governance principles.
- Follow up on the implementation of the provisions of laws and ministerial orders governing the establishment and control of companies.

- Follow up on holding the general assemblies of companies and submitting the financial statements.
- Follow up the compliance of companies and review violations related to governance controls.
- Follow up on corporate governance indicators such as the level of accumulated losses, the legal reserve percentage derived from the annual profits, and the extent of the company's compliance to trade regulations.
- Contribute to the study of amendments to Commercial Companies and Trade laws to ensure corporate governance, monitor legislative gaps and provide insights and advice.

Stages of Governance Development

Governance has gone through many stages of continuous development since the beginning of 2001, most of the stages were aimed at reaching the stage of supporting sustainability, enabling justice and raising the benefits for stakeholders.

Purpose of Governance

The role and importance of corporate governance

The rules of corporate governance are the principles, systems and procedures that achieve the best protection and balance between the companies' interests of executive management, shareholders and other related stakeholders. The main objective of applying the rules of corporate governance is to ensure that the company is in line with the shareholders' objectives in order to enhance their confidence in the efficiency of the company's performance and its ability to face crises.

The corporate governance rules regulate the methodology of making all decisions within the company and stimulate transparency and credibility for those decisions. One of the most important objectives for issuing the corporate governance rules is to protect shareholders, and to separate the authority between the executive management that runs the company's activities and the board of directors that prepares and review plans and policies in the company, in a manner that grants reassurance and enhances a sense of confidence in the proceedings. It also enables shareholders and stakeholders to effectively monitor the company.

The corporate governance rules are based on strengthening the following:

First - Ethical Behavior:

This ensures adherence to ethics and the rules of rational professional conduct, balance in achieving the interests of all parties related to the company and transparency when presenting financial and non-financial information.

Second- Control and Accountability:

The importance of establishing an integrated system of control and accountability is to detect deviations and violations, as well as activating supervision role of stakeholders in the company, and emphasizing that disclosure and transparency are essential elements in protecting the rights of stakeholders.

Third - Proper Administrative Organization:

The proper administrative organization is to ensure the distribution of authorities and responsibilities, the separation of competencies, and establishing a system of incentives and rewards through performance appraisal, whether for managers or employees of the company.

The importance of corporate governance lies in several aspects,including:

First: Economy:

Corporate governance contributes to elevating the level of economy efficiency, the level of transparency and attracting investments from within the Kingdom and abroad, in addition to reducing the risks facing the economic system.

Second: Companies:

Applying governance principles helps companies create a sound work environment that helps the company perform better with good management so that the company's economic value is greater, and governance also help companies access the financial markets and obtain the necessary financing at a lower cost which in turn helps them expand their business, reduce risk and build trust with stakeholders.

The importance and benefits of corporate governance to companies in particular are:

1- Enhancing the administrative efficiency of companies.
2- Financing procurement at a lower cost.
3- Strengthening regulatory and audit procedures.
4- Supporting the social role of companies.
5- Promoting justice, transparency and fair treatment.
6- Reducing the concept of conflict of interest.

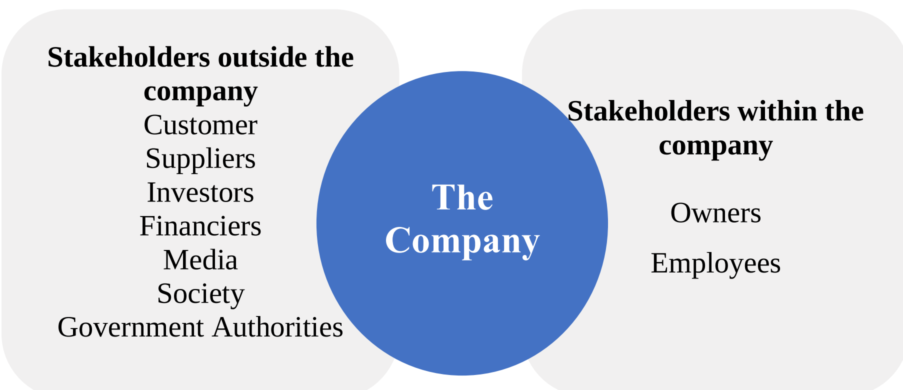
Third: Shareholders:

Corporate governance aims to protect investments from loss due to misuse of authority in a manner not aligning with the interests of shareholders and it also aims to maximize investment returns, shareholders' rights and company's value as well as reduce conflicts of interest. The company's compliance with applying governance standards activates the role of shareholders through participating in key decisions associated with managing the company and the awareness of all matters related to their investments.

Fourth: Other Stakeholders:

Governance seeks to build a close and strong relationship between the company's management, employees, suppliers, creditors and others. It also enhances the level of confidence of all customers to contribute to raising the company's performance and achieving its strategic objectives.

Stakeholders Definition



Scope of Application

The Management and Corporate Governance Code applies to all joint-stock companies in the Kingdom of Bahrain that are registered in accordance with the Commercial Companies Law. In applying the code to joint-stock companies of a family nature, the provisions of the code commensurate with their financial and administrative conditions and capabilities, in a manner that achieves the results that the code aims to achieve.

- Public joint stock companies other than financial institutions, banks and insurance companies
- Closed joint stock companies non regulated by the Central Bank of Bahrain

Application Methodology

The application of the Code is based on the principle of "Comply or Explain", meaning that the company must comply with the provisions of the Code or explain the reason for non-compliance. Among the acceptable reasons for non-compliance, the company takes different measures depending on its market size or the recentness of its listing or establishment, noting the importance of achieving effective and ultimately good governance in the future. It is also important to clarify the reasons in the company's annual corporate governance report and to discuss them with shareholders in the general assembly meetings. It is also important to note that the implementation of the principle of Comply or Explain cannot be done at the expense of a peremptory legal rule, whether in the Commercial Companies Law or elsewhere.

The rules contained in the Corporate Governance Code are divided into mandatory rules stipulated in the Commercial Companies Law and guidelines stipulated in the Corporate Governance Code. Although the guidelines are rules that can be explained in the event of non-compliance, the company must gradually increase its compliance with them in order to ultimately achieve good governance.

Corporate Governance in the Kingdom of Bahrain:

Shareholders' Rights:

One of the most important aspects of corporate governance is that shareholders obtain all their rights related to the shares, especially the right to obtain a share of the profits to be distributed, the right to obtain a share of the company's assets upon liquidation, the right to attend, participate in the discussions and vote on the resolutions of the general assemblies, the right to dispose of shares, the right to monitor the work of the Board of Directors and file a liability claim against members of the board and the right to inquire and request information in a manner that does not harm the interests of the company.

Perhaps one of the most important mechanisms for shareholders to obtain their voting rights to select board members is through cumulative voting.

Cumulative Voting Definition and Process

It is a voting method for selecting board members that gives each shareholder voting power equivalent to the number of shares they own, so that they are entitled to vote for one candidate or divide the votes between their chosen candidates without repeating these votes.

This method increases the chances of minority shareholders having representation in the board of directors by focusing cumulative votes on a single candidate.

Illustration: If a company has 3 vacant seats to vote for in the board of directors, each shareholder can vote as follows:

Shareholder (A) owns 550,000 shares
Shareholder (B) owns 250,000 shares

Candidate	Shareholder (A)	Shareholder (B)	Shareholder (A)	Shareholder (B)
First candidate	550,000		220,000	
Second candidate				
Third candidate	550,000		220,000	
Fourth candidate		250,000		250,000
Fifth candidate	550,000		110,000	
Sixth candidate				

It is noted that investor B in the regular voting system was unable to appoint a representative for him in the board of directors, while through a cumulative voting he was able to appoint a representative for him in the board of directors by focusing all of his shares on the fourth candidate.

The shareholder my delegate another shareholder who is not a member of the board to represent him in the voting.

A legal person who is entitled according to the company's articles of association to appoint representatives to the board of directors, may not vote on the selection of others in the board of directors.

Disclosure, Transparency and Corporate Governance:

Disclosure and transparency are among the most important principles of corporate governance in order to enable the shareholders to obtain the required information with transparency and fairness.

Companies must also enclose with their financial statements a report issued by the board of directors includes a presentation of the company’s operations during the past fiscal year, and the factors affecting its business which help the shareholder assess the company’s assets, liabilities and financial position, in addition to including in the corporate governance report with what has and hasn’t been applied from the principles of corporate governance issued by the Ministry of Industry andCommerce with an explanation of the reasons for non-compliance.

Board of Directors:

The Board of Directors shall represent all shareholders and must perform the duty of care and loyalty in managing the company and all that would preserve and develop its interests and maximize its value.

Members of the Board of Directors shall be liable, both individually and jointly, before the shareholders for achieving the company's goals and objectives. They shall be primarily concerned with the interest of the company which shall take precedence over any other interests, including the interests of the shareholders they represent.

The Board shall represent all shareholders and must perform the duty of devotion and loyalty in managing the company and all that would protect and develop its interests and maximize its value. The role and responsibilities of the Board, include, but not limited to, the following:

1- Adopting the commercial and financial policies associated with the company’s business performance and achievement of its objectives.
2- Drawing, overseeing and periodically reviewing the company's main plans, policies, strategies and key objectives.
3- Setting and generally supervising the regulations and controls for the company’s internal control.
4- Determining the company’s optimal capital structure, strategy and financial objectives and approving annual budgets.
5- Monitoring the company’s major capital expenditures, the possessing and disposing of assets.
6- Adopting the company’s quarterly and annual financial statements and presenting them to the general assembly of shareholders.
7- Monitoring the of executive management’s activities and ensuring the operations run smoothly to achieve the company's objectives and they do not conflict with the applicable laws and regulations.
8- Forming specialized committees emerging from the Board of Directors as required by the nature of the company’s activity as stipulated in the regulatory requirements and issuing regulations that govern the work of these committees.
9- Specifying the types of remunerations for executives and board members and obtain the approval of the shareholders’ general assembly, taking into consideration the provision of article (188) of the Commercial Companies Law.
10- Setting a mechanism to regulate transactions with related parties, in order to minimize conflicts of interest.

Classification of Board of Directors:

The board of directors must maintain the required level of independence in making decisions that would achieve the objectives of the company and its shareholders. Therefore, the company's articles of association shall specify its requirements for executive, non-executive board members and independent members. At least half of the board members must be non-executive members, which at least three of them are independent members.

Executive Member	Non-Executive Member	Independent Member

Executive Member: A member of the Board of Directors who is a member of the company's executive management, participates in the day-to-day management of the company and receives a salary in return.

Non-executive Member: A member of the Board of Directors who is not fully involved in the management of the company (i.e., not an employee therein) or does not receive a monthly or annual salary, except for the remuneration for the membership in the Board of Directors and committees.

Independent Member: A non-executive board member who is fully independent in his position and decisions, and none of the independence invalidity cases shall apply to him, including but not limited to the following:

1- He holds 10% (Ten percent) or more of the company's shares.
2- He is representing a legal person who holds 10% (Ten percent) or more of the company's shares.

3- He has served for the two years preceding his nomination in an executive position in the company.
4- He is a first-degree relative to any of the company's Board of Directors or any of the company's key executive management personnel.
5- He has been employed within the past two years preceding his nomination by any of the company's contracting parties (including external auditors, major suppliers, and NGOs that have received a substantial funding from the company or its subsidiaries).
6- He has, during the year preceding the year in which the extent of his independence is reviewed, paid to the company or received therefrom amounts over BHD 50,000 or its equivalent (the remuneration of members of the Board of Directors is not counted for this purpose).
7- He, or any of his relatives, is a partner of the company’s auditor or an employee thereof, or if he, during the two years preceding the date of his appointment to the Board of Directors, has been a partner or employee of the company or the company’s auditor.
8- He is an employee or a partner in a company that provide consultancy services to the company.

Board of Directors Responsibility:

The Board of Directors is fully responsible for the company even if it forms committees or delegates certain duties to other bodies or individuals, the Board of Directors may not issue general authorizations or authorizations with an unlimited duration, as the responsibilities of the Board of Directors must be clearly defined in the company's articles of association, the Board of Directors must perform its duties responsibly, in good faith, seriousness and care.

A board member must commit himself to the interests of the company as a whole and not to the interests of the group he represents or voted to appoint him in the Board of Directors.

Auditor's obligations:

The annual general assembly shall appoint one or more auditors for the company and determine their fees according to the recommendation of the Board of Directors, while taking into consideration the following:

1. To be nominated by the audit committee recommendation submitted to the Board. If the Board of Directors adopts the recommendation of the audit committee, it shall be included in the agenda of the annual general assembly.
2. To be one of the auditors registered in the auditors' register at the Ministry of Industry and Commerce.
3. To ensure that the auditor is independent from the company and its Board of Directors.
4. To be well-qualified, competent, highly reputed and professionally experienced.
5. The external auditor shall be appointed for one fiscal year, renewable for similar periods, provided that it does not exceed five consecutive fiscal years. The external auditor may not be appointed thereafter except after the lapse of two consecutive fiscal years.
6. The partner responsible for the company's audit must be rotated once every three years at a maximum.

The auditor shall abide by the following:

First: Obligations related to the auditor's disclosures in the financial statements

During auditing their clients' accounts, the auditor is obliged to:

1. Examine the administrative, financial, internal control and governance systems within the company to ensure that they are suitable for the proper effective functioning of the company and the preservation of its assets.
2. Ensure that the company complies with regulatory governance requirements.

   The auditor must prove the fulfilment of the above mentioned obligations in a special paragraph within his professional opinion in all financial reports issued by him.

Second: Obligations of the auditor related to the audit-related activities

1. Monitoring the company's business, expressing an opinion on the validity of the company's financial statements and requesting its adjustment if there is anything impact on their validity.
2. Verifying the company's ownership of its assets and legality of obligations.
3. Attending the general assembly meetings, reading the report to the shareholders and answering their questions and queries regarding the final financial statements for the year end.
4. Notifying the Board of Directors of the violations discovered or suspected. In the event that the detected or suspected violation is serious, it shall provide the regulatory authorities with a copy of the report prepared for

this purpose without the permission of the company or the Board of Directors.

5. Refraining from carrying out additional non-audit activities which may affect its impartiality or independence.
6. Carrying out the duties assigned thereto independently and impartially.

Board Committees and their Independence:

The Board of Directors shall form specialized committees based on the company’s need to enable it to perform its duties effectively. The formation of committees is in accordance with general procedures set by the Board that include defining the duty of each committee, the duration of their work, the powers granted to them and the manner the Board of Directors shall supervise them. The committee must inform the Board of Directors of its findings or decisions taken in a transparent manner, and the board must regularly follow up on the work of these committees to verify that they are performing the duties entrusted to them. The number of committee members shall consist of at least three members.

Audit Committee | Nominations Committee | Remuneration Committee

Audit Committee:

The committee consists of at least three members, these members must not have a conflict of interest with any other duties they have towards the company. The majority of the members of the committee, including the Chairman, must be independent directors and they must be non-executive in the event the Board of Directors wishes to appoint non-board members as experts in the committee. The duties of the committee include, in particular, the following: financial reports, internal reviews, auditing and ensuring compliance.

Nominations Committee:

The Board of Directors shall form a committee of at least three members, called the Nominating Committee. The Committee shall include independent directors or non-executive directors, the majority of whom shall be independent, and the Chairman of the Committee shall be an independent director. This composition shall be in line with international best practices under which the Nominating Committee can exercise its powers without conflict between personal and functional interests.

The nomination committee shall exercise the following functions and responsibilities:

1- Nominate the persons eligible for directorship or chief executive office, chief financial officer or secretary position, except for the internal auditor who is nominated by the Audit Committee.
2- Make recommendations to all directors, including recommendations for potential candidates to be included in the shareholders' next meeting agenda.
3- Review the structure of the Board of Directors, periodically evaluate the directors' performance and make recommendations to the Board of Directors on the necessary changes that should be made to address weaknesses to achieve company's interests.
4- Ensure, on an annual basis, the independence of the independent directors.

Remuneration Committee:

The Board of Directors, from among its members, shall form a committee called the "Remuneration Committee", consisting of three independent directors or non-executive directors, the majority of whom shall be independent. The Chairman of the Committee shall be an independent director. This shall be in line with international best practices under which the committee can exercise its powers without conflict between personal and functional interests.

The Remuneration Committee shall exercise the following functions:

1- Review the company’s policies relating to the remuneration of directors and senior executives, which shall be approved by shareholders.
2. Make recommendations to the Board of Directors on the remuneration policies and amounts allocated for each person, taking into consideration the total remuneration, including salaries, fees, expenses and employee benefits, subject to the rules and provisions of the Commercial Companies Law concerning the payment of remunerations and other benefits as well as the company’s articles of association.
3- Remunerate directors based on their attendance and performance.

Merging the Remunerations and Nominations committees:

The company may merge the Remuneration and Nomination committees into a single committee called the Remuneration and Nominations Committee. In this case, the Remuneration and Nomination Committee must meet the requirements of either of them, and it must meet periodically at least every six months.

Regulatory Requirements:

1. Appointment of a corporate governance officer
2. Existence of guidelines and written procedures for governance
3. Annual independent report on corporate governance
4. A special item on governance on the agenda of the general assembly

Obligations of the Corporate Governance Officer:

The company is obligated to appoint one of its employees as the company's corporate governance officer to carry out the tasks of verifying the company's compliance with the corporate governance rules, laws, regulations and resolutions issued in implementation thereof. The company shall also provide the concerned department with the name, contact and address details of the company's corporate governance officer and inform the concerned department in the event of replacement.

The corporate governance officer is obliged to:

1. Coordinate and follow-up with the concerned department on the regulatory requirements of the company's governance.

2. Ensure that the policies and implementation of the company's corporate governance are consonant with the regulatory and legal requirements to which the company is subjected to.
3. Ensure the availability of internal control systems which guarantees the implementation of the principles stated in the Code.
4. Work and coordinate with the Board of Directors and the Corporate Governance Committee on a permanent basis to improve the implementation performance in the company.
5. Review the annual governance report, which is part of the company's annual financial report, to ensure its contents and conformity with the company's internal and regulatory requirements.

Conclusion:

Corporate Governance aims to achieve the optimal and rational investment of the capabilities and resources of companies by creating a work environment based on responsibility, control and compliance, observing the principles of clarity and transparency in determining the company's objectives and strategic business plans, demonstrating the rights and obligations of each of its entities, as well as managing its relationship with suppliers, financiers, consumers, regulators and activities carried out by them.