

**Code of Corporate Governance for Public Listed Companies**

**(The “Code”)**

**Arabic version: issued in July 2015**

**English translation: issued in December, 2015**

**(In case a difference of interpretation arises between the Arabic version and its English translation, the meanings provided in the Arabic version shall prevail)**

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## **Objective of this Code**

This Code aims to provide a binding and optimum framework for corporate governance in public stock companies vis-à-vis their direction, organization and supervision, through a series of specific and defined policies, processes and procedures.

## **Scope of Application of the Code:**

The provisions of this Code shall apply to all public joint stock companies (the “**company**”, “**corporate**”, “**companies**” or “**corporates**”) listed on the Muscat Securities Market.

## First Principle: Purpose of Corporate Governance

The purpose of Corporate Governance is to set out processes by which corporates are controlled and directed to create efficient enterprises contributing to building a strong, transparent and competitive national economy. The aim of such a process is to mitigate any adverse impact on the national economy, the stakeholders and the local community arising from failure to comply with corporate governance best practices.

### Explanatory Notes and Guiding Procedures

1. Corporate governance is the system by which the company is directed and controlled, through the following processes:
  - (a) Identifying and allocating rights and obligations among different parties in the corporate, such as the board of directors, management, employees, shareholders, related parties and others, as the case may be.
  - (b) Setting out required rules and procedures required for decision making with regard to company affairs.
  - (c) Setting out the objectives and strategies required to achieve the above objectives.
  - (d) Specifying the criteria for monitoring and evaluating the company's performance.
  
2. Main pillars of corporate governance are taken to be as follows:
  - (a) **Transparency:** means that directors and management shall exercise due diligence in providing information required by regulators, shareholders, investors and related parties in a timely and appropriate manner to enable such recipients to take decisions and, with the same token, discharge of their duties appropriately.
  - (b) **Accountability:** means that directors shall be cognizant that they are accountable for their decisions and actions before the shareholders and that they should subject themselves to assessment according to best practices.
  - (c) **Fairness:** means that all shareholders, employees and related parties are treated equally by the directors and the executive management without any partiality or concealed interests.
  - (d) **Responsibility:** means that the directors shall perform their duties honestly with integrity and faithfulness toward the economy, the community in general and the company in particular. They shall exercise prudence, due diligence and care in performing their duties placing the interests of the company before any personal interests and, with the same token, taking into account the company's social responsibility.

3. The General Management Framework (or standard operating procedures) of the company must provide for an appropriate environment and ways that allow shareholders to actively participate in the general meetings; and obtain the information which enables them to exercise their rights, answer their queries and participate in the election of appropriate directors.

## Second Principle: Board of Directors' Formation, Roles and Responsibilities

Each company must be headed by an effective Board of Directors (the “**BoD**” or “**board**”) to lead the company, monitor its business and control its operations. The BoD shall be collectively responsible for the success of the company in achieving its long term objectives. The BoD shall work with the Executive Management, without interfering in their day-to-day duties, to achieve the company’s objectives. In all cases, the executive management shall be responsible before and accountable to the BoD.

### Explanatory Notes and Guiding Procedures

- (1) The directors are severally and jointly liable before shareholders in achieving the company’s goals and objectives. They shall be primarily concerned with the company’s interests and give them precedence over other interests including the interests of the shareholders they represent.

The general meeting may remove any director or all directors if they fail in performing their duties and responsibilities.

- (2) The directors and chairperson of the board are prohibited from interfering in the daily routine and direct operational matters of the company.

- (3) Subject to the provisions of the Commercial Companies Law and its amendments, and the Rules and Conditions for Electing Directors of Public Joint Stock Companies and their Responsibilities, the company shall comply with the following when forming its BoD:

- (a) All directors shall be non-executive directors.
- (b) Percentage of independent directors to the total number of board members shall not be less than one third, with a minimum of two independent directors.
- (c) Directors, who have been elected for the first time or re-elected, must undergo some qualification in corporate governance and sustainability through training programmes at the company’s expense.

- (4) The opinion of the Nomination and Remuneration Committee shall be taken into consideration when electing directors to ensure that elected directors possess the following skills and abilities<sup>1</sup>:

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<sup>1</sup> Without prejudice to shareholders rights to elect board members as they deem appropriate.

- (a) Strategic insight; and ability to direct, encourage innovation and continuously drive the company to consolidate its vision.
  - (b) Required expertise in financial accounting and corporate finance.
  - (c) Understanding of management trends in general and the respective industry in particular.
  - (d) Ability to deal with crises, both short term and prolonged.
  - (e) Proper and relevant experience in the nature of the company's business.
  - (f) Commercial experience in global markets, if the company has international operations.
- (5) Persons wishing to nominate themselves or be nominated to the board membership should have the following attributes and professional competencies:
- (a) High ethical and integrity standards in their personal and professional conduct.
  - (b) Intelligence, prudence and the ability to take appropriate decisions.
  - (c) Capability to read and understand financial statements.
  - (d) Aptitude to contribute towards effective stewardship of the company.
  - (e) Capability to approach others assertively, responsibly and cooperatively.
- (6) In order to ensure the quality of directors' performance and the accomplishment of its objectives, the BoD shall, as minimum, carry out the following tasks:
- (a) Devise accountability measures vis-à-vis directors to ensure their attendance of meetings, effective participation and performance of their roles. Such measures shall state the means and methods for performance monitoring, compliance with the expected professional conduct, and consequences of failure to perform their duties.
  - (b) Determine the required skills needed in board membership. The BoD may delegate this task to the Nomination and Remuneration Committee (defined later in the Code), in order to recommend suitable candidates to the general meeting as potential nominees, providing that shareholders retain the full right, authority and freedom to select board members from amongst those nominated by the aforementioned committee or others.
  - (c) Review the above annually.
- (7) The board has to approve and make public clear policies and controls for providing directors with the information they need outside the routine and regular framework of BoD meetings. The BoD shall task the company secretary to monitor the implementation of these policies and controls.

- (8) The BoD has to include in its annual report to the general meeting, a statement with supporting justifications outlining the company's ability to continue its operations as set out in the General Management Framework of the company.
- (9) The board has to ensure efficiency and adequacy of the internal control systems in all the units or divisions of the company including financial management, and its related operations, obligations management, and risk management. The board has to emphasize the same in its report to the shareholders, taking into consideration that, under all circumstances, the board's responsibility for preparing accounts and financial statements and assuring their accuracy is not undermined by the external auditors' responsibility for preparing their reports.
- (10) The chairperson of the board shall, with the assistance of the company secretary, ensure adherence the following terms and conditions for the board's meetings:
- (a) The board shall hold at least four meetings per annum.
  - (b) The term between any two meetings shall not exceed four consecutive months.
  - (c) In case of regular meetings, the meeting agenda shall be sent to all directors at least seven (7) working days prior to the date of the meeting.
  - (d) In case of urgent or unforeseen meetings, the meeting agenda may be sent to directors less than seven (7) days prior to the date of the meeting, as the case may be.
- (11) In case of quarterly meetings dedicated to discuss quarterly results, the company shall comply with Annexure (1) of this Code as minimum information to be provided to directors.
- (12) The board may convene through video conferencing, providing such convening is kept to a maximum of two meetings per annum. Similarly, the board may accept the remote participation of any of its members in its meeting deliberations. The board shall set out the rules and controls for the use of modern telecommunication methods in the convening of its meetings and remote participation of directors.
- (13) Except for resolutions approving financial statements of the company, directors may adopt resolutions by circulation and proceed in executing the said resolutions, however, such resolutions must be listed for ratification in the agenda of the next board meeting<sup>2</sup>. The board shall set out the rules, terms and conditions for adopting resolutions by circulation.

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<sup>2</sup> The meeting that is directly subsequent to the adoption date of the said resolutions.



### **Third Principles: Board of Directors' Authority and Competences**

Articles of association of the company, approved by the general meeting, shall set out clearly the authority and competences of the BoD. Such delineation of authority and competences shall be made accessible to the public, aim to serve the purpose and objectives of the company, reinforce its governance, and maximize its contribution to the national economy and local community.

#### Explanatory Notes and Guiding Procedures

- (1) The board shall, at minimum, perform the following tasks and competences:
- (a) Identifying a strategic vision of the company based on its mission, purpose and objects, and set viable performance indicators within a reasonable time frame which can be measured objectively, updating them periodically.
  - (b) Adopting business and financial policies pertinent to the performance of the company's business and meeting its objectives, reviewing them periodically to ensure sustenance of their efficiency.
  - (c) Setting required strategic executive plans, reviewing and updating them from time to time.
  - (d) Adopting internal regulations and bylaws pertinent to steering and management of the affairs of the company.
  - (e) Adopting the disclosure policy of the company, and monitoring compliance with its provisions as per regulatory requirements.
  - (f) Identifying necessary competences and authority required for the executive management; and ratifying the delegation and implementation policy of powers to the management.
  - (g) Monitoring the work of the e management to ensure the business is properly managed according to the company's objective and ensuring compliance with the laws and regulations.
  - (h) Reviewing related parties transactions.
  - (i) Forming specialized committees; the resolution of which shall name committee members, and determine their duties, rights and obligations.
  - (j) Ensuring the efficacy of systems and polices of the company targeting successful operation of the company, its development and attaining its goals and objectives.
  - (k) Appointing the following key executive officers: chief executive officer, general manager, head of internal audit unit or compliance officer (if any) as well as determining their rights and responsibilities.
  - (l) Evaluating, at least annually, the performance of specialized committees emanating from the board and key executive officers.
  - (m) Approving quarterly and annual financial statements.

- (2) The company (embodied in the chairperson) has to conduct, within not more than ninety (90) days from the constitution of the board, an induction programme to introduce new directors to the business and operations of the company, especially the financial and legal aspects thereof, leave alone training them, if necessary.
- (3) The board should adopt a reasonable and prudent policy in delegating authorities to the executive management. The delegation policy and bylaws should cover the entire range of functions pertinent to financial and administrative affairs, personnel, as well as other functions required for efficient operation and management of the company.
- (4) The board shall be transparent in matters pertaining to the external auditors of the company, especially when engaging them for consultancy. The board shall be motivated in this regard by safeguarding total independence, in addition to respecting investors' understanding and perspective vis-à-vis the meaning of independence.
- (5) The board shall use the general meetings to effectively communicate with the shareholders, especially minority shareholders. The purpose is to ensure their participation in general meetings' attendance and discussion. In order to achieve the above, the board shall apply modern methods and techniques in meetings management, provide guidelines and manuals on effective participation in general meetings. Such application shall be recorded in the minutes of the general meeting.
- (6) Subject to the provisions of disclosure of material information stipulated in the Executive Regulation of the Capital Market Law, Part VII in particular, the board of directors shall establish, maintain and enforce written policies, procedures and systems of supervision related to disclosure of material information reasonably designed to ensure the following:
  - (a) Fair and timely disclosure of material information about the company.
  - (b) The disclosed information is honest, correct, straightforward, and reasonably comprehensive.
  - (c) The disclosed information does not - intentionally or unintentionally- mislead the shareholders or investors.
  - (d) Prevention of insider trading, i.e. dealing in company's shares on the basis of undeclared or undisclosed information by persons who, by virtue of their position or relationship with the company, are aware of such information.

(7) Directors are not permitted to provide press statements or release data or information without a prior written permission by the board or the chairperson. The board has to identify a company spokesperson.

Fourth Principle:  
Chairperson

The chairperson is primarily responsible for effectively leading the board of directors and the company to ensure that the board performs its role, responsibilities, functions and powers in directing the company toward achieving its strategic visions and the purpose for which it is established. The chairperson represents the company before competent courts.

Explanatory Notes and Guiding Procedures:

- (1) The chairperson has to possess great leadership skills. He/ she has to be realize that the success of the board in discharging it duties is closely related to the ability of the chairperson to maintain cohesion of the board, harmony among directors, and their professional cooperation, all of which will lead to achieving the company objectives and purpose.
- (2) The chairperson shall, at minimum, perform the following:
  - (a) Promoting high standards of governance in the board and the company.
  - (b) Ensuring that all directors have read the Code, are aware of its contents and have put their signature to that effect .
  - (c) Leading the board to ensure efficacy of discharge of its duties, competences and powers.
  - (d) Calling the board to convene for meetings, chairing such meetings and tasking company secretariat to send the invitation.
  - (e) Setting board meetings' agenda, in coordination with the company secretariat, and ensuring distribution of the said agenda to all directors at an ample time before the said meetings.
  - (f) Ensuring that the directors obtain accurate, clear and timely information.
  - (g) Developing and encouraging constructive relations among directors..
  - (h) Ensuring efficient communication with shareholders.
  - (i) Without prejudice to the provisions of this Code, developing and promoting constructive relations between the board of directors and the executive management.
  - (j) Putting in place an induction programme for the directors to brief them on the company business and employees.
  - (k) Encouraging directors to pursue learning and continuing professional development.
  - (l) Ensuing that directors are enrolled in training or refresher programmes on their duties, compliance with the requirements of corporate governance, and other relevant regulatory requirements, si opus sit.
  - (m)Facilitating effective contributions by directors.
  - (n) Ensuring the implementation and follow up of the resolutions of the board of directors.

- (o) Appraising the performance of the board impartially and independently by a third party appointed by the annual general meeting in accordance with a benchmark and standards set by the board or the general meeting. The external or internal auditors of the company cannot not be engaged for this purpose.
- (p) Representing the company before the competent courts and third parties.

## **Fifth Principle: Company Secretary**

The board of directors shall, at the inception of each term, appoint an experienced and qualified secretary who is able to assist the board in complying with the provisions of this Code and the applicable laws and regulations in the Sultanate as well as directives issued by other regulators and competent authorities.

### Explanatory Notes and Guiding Procedures:

- (1) The secretary has to have:
  - (a) some knowledge background in law, accounting, audit or company secretariat.
  - (b) reasonable practical experience in business administration or executive management.
  - (c) no related parties inhibitions stipulated in this Code.
  
- (2) The secretary, at minimum, shall carry out the following tasks:
  - (a) Sending invitation to meetings, as per instructions of the chairperson, and determining the topics to be listed in the respective meeting agenda.
  - (b) Assisting the chairperson in steering the meeting, stating the position of the board on the issues listed in the agenda, and summarizing the resolutions adopted by the board.
  - (c) Recording the minutes of the meetings of the board of directors in dated and numbered minutes showing all the issues and important details deliberated in the meeting, as well as adopted resolutions; providing that the following is recorded: names of present directors; and names of those who voted for or against each of the adopted resolutions or names those who abstained.
  - (d) Sending the draft minutes of the meeting, after it has been reviewed by the chairperson, to the directors in not more than seven (7) working days from the date of the meeting.
  - (e) Incorporating any amendments to the draft minutes and sending the final version within not more than thirty (30) working days from the date of the meeting.
  - (f) Ensuring compliance of the directors and the chairperson with meeting and deliberations procedures, validating the, against the company bylaws and regulations, relevant legislation, and directives issued by other competent regulators.
  - (g) Safe-keeping the company's official documents, reports and statements, and original signed minutes of the board meetings, as well as any other documents the board instructs to deposit with the company secretariat.

## Sixth Principle: Executive Management

The executive management (the “**management**”) executes the company’s general policies in accordance with its strategy and plans; and implements the bylaws, resolutions and procedures adopted by the board of directors.

### Explanatory Notes and Guiding Procedures:

- (1) The management must make available sufficient information on the company affairs to all directors for the purposes of board meetings and consideration of the items listed in the agenda, which will enable them to perform their duties efficiently.
- (2) The management shall perform the following:
  - (a) Manage the daily business of the company efficiently and faithfully in accordance with the policies and procedures approved by the board.
  - (b) Work relentlessly to deliver the purposes of the company and realise its objectives provided for in the articles of association.
  - (c) Inform the board of the risks and challenges in a timely manner, as directed in the approved policies and procedures. In case of risks that have not been addressed by any of the approved policies and procedures, the management has to inform the board as soon as possible and in an appropriate manner.
  - (d) Bear in mind the protection of shareholders’ rights, company development, profits growth, and the safeguarding of the interests of stakeholders, the economy and community.
- (3) The management is responsible before the board for all their acts and behaviour.
- (4) Members of the management must be employed contracts with the company setting out their rights and obligations.
- (5) The management shall, as directed by the board, enhance the efficiency and skills of the executives to gain the confidence of the board and shareholders.
- (6) The management shall exercise its responsibilities and authority according to an organizational structure that is approved by the board specifying the hierarchy and responsibilities of each of the executives and their authorities.
- (7) The management shall disclose to the board all financial and commercial transactions wherein the executives or any of their first degree relatives have personal interests prior to concluding such transactions.

- (8) The management shall exert its best efforts in attaining company's sustainability and not just its short-term profits and revenues.
- (9) The chief executive officer of a public joint stock company cannot and shall not act as or assume the role of the chief executive officer of a subsidiary company simultaneously, regardless of whether the subsidiary company is headquartered within Oman or abroad.



**Seventh Principle:  
Professional conduct of  
Directors and Executives**

The board of directors and the executive management shall achieve high standards of professional conduct and abide by professional ethics while performing their duties.

Explanatory Notes and Guiding Procedures:

- (1) The board of directors shall draft an internal code for ethics and professional conduct, such as those set out in Annexure (2) of this Code, to be adopted and implemented by the directors and executives. The board shall adopt and disseminate the aforementioned code of conduct, and ensure that directors and executives have read it or has access to it.
- (2) The directors shall implement and comply with the standards of professional conduct provided for in the code for professional conduct approved by the board.
- (3) The board shall monitor the management's compliance with the aforementioned code for professional conduct.
- (4) The code for professional conduct must be cross-referenced when formulating the company policies vis-à-vis complaints, suggestions (proposals) and grievances; detailing the specific steps and mechanisms to be used for implementing such policies.

**Eighth Principle:  
Independent Director**

The board of directors shall be constituted of individuals who have the ability and independence to consider the affairs of the company wisely, proficiently, objectively and impartially to ensure complete independence from the management and major shareholders. No individual or group of individuals can be allowed to dominate board deliberations and its decision making process.

Explanatory Notes and Guiding Procedures:

- (1) Independence in this context means two things: (1) pecuniary or financial independence as set out in the terms and conditions below. (2) Independence of opinion engendered and nurtured by experience, expertise, proficiency or knowhow in the fields of the company's business, its industry or related industry. Such independence of thought is aimed to enable the independent director to support the board's decision making process and the company's directorship in ways that will serve the company's purposes and objectives.
- (2) The independent director must be:
  - (a) Honest and morally upright.
  - (b) Not related materially, economically or financially to the company, any of its subsidiaries or associates, or entities held or owned by the company, to the extent permitted by the provisions below.
- (3) A director is not be deemed independent in any of the following cases:
  - (a) Holding ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.
  - (b) Representing a juristic person who holds ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.
  - (c) Had been, during the two years preceding candidacy or nomination to the board, a senior executive of the company, its parent company or any of its subsidiary or associate companies.
  - (d) Being a first degree relative of any of the directors of the company, its parent company or any of its subsidiary or associate companies.
  - (e) Being a first degree relative of any of the senior executives of the company, its parent company or any of its subsidiary or associate companies.
  - (f) Being a director of the parent company or any of the subsidiary or associate companies of the company being nominated for its board membership.
  - (g) Being, during the two years preceding candidacy or nomination to the board, an employee of any of parties contractually engaged with the company (including external auditors, major suppliers or civil society

organisations (“CSO”) where the latter received a support in excess of 25% of the annual budget of such CSOs).

- (h) Being, during the two years preceding candidacy or nomination to the board, an employee of the parent company or any of its subsidiary or associate companies.
  - (i) Holding about 20% of the shares of any of the above mentioned parties during the two years preceding candidacy or nomination to the board.
- (4) (a) The independent director has to notify the board as soon as a change in circumstances occurs with which his/ her independence status or condition is forfeited, within a period of not more than thirty (30) days.
- (b) In all cases, the independent director has to submit an annual statement at the end of the financial year of the company, indicating whether or not a change in circumstances has occurred which might impair his/ her independence.

## **Ninth Principle: Rules for Related Party Transactions**

The company must adopt the highest degree of transparency and clarity when it comes to Related Party Transactions (“**RPT**”). All such transactions must be subject to review of the audit committee and approved by the board of directors or general meeting (as the case may be) prior to execution.

### Explanatory Notes and Guiding Procedures:

- (1) This principle aims to mitigate the risks of the influence of related parties on the integrity of the company transactions and its financial position. The principle is concerned with the disclosure of all relations, transactions and obligations pertaining to any person or enterprise related to the company.
- (2) A person is deemed a related party if such person:
  - (a) was a director of the company, its parent company or an of its subsidiary or associate companies in the past twelve months.
  - (b) has significant influence on the company and its performance.
  - (c) is among the top senior executives of the company or its parent company, such as the chief executive officer, general manager or an employee who reports directly to the board.
  - (d) holds or controls 10% or more of the voting rights in the company, its parent company or any of its subsidiary or associate companies.
  - (e) Is a first degree relative of any of the persons fulfilling the points a, b, c and d above.
  - (f) Is an associate of any of the business entities stated in (3) below, wherein he/ she holds individually at minimum 25% of the voting rights.
- (3) An enterprise is deemed a related party if:
  - (a) It is a member of the same group, i.e. a parent enterprise, subsidiary or an associate.
  - (b) It is a Joint venture of the company or related enterprises.
  - (c) Persons identified in (2) above hold jointly or severally at minimum 25% of voting rights or the right to direct their resolutions or have significant control thereof.
  - (d) It is a commercial enterprise the directors of which act according to the company will.
  - (e) It is pension fund or end of service project providing end of service scheme for the employees of the company or any of its related enterprises.
- (4) The following entities are not deemed related parties:

- a. Financiers of the company.
  - b. Labour syndicates, trade unions and federations.
  - c. Public utilities (managed by the government or companies under concession contracts).
- (5) The term (Related Party Transactions, “**RPTs**”) means the transfer or exchange of resources, services or obligations between the company and a related party, regardless of whether such a transaction was concluded for a consideration.
- (6) When considering RPTs, it is imperative to look at the substance of the relations and the extent of its influence on the integrity of the company resolutions and transactions, and not to be confined to legal form only.
- (7) All related party transactions must be reviewed by the audit committee prior to execution.
- (8) In case of RPTs, which the company enters into during the ordinary course of its business, they all must be approved by the board prior to execution.
- (9) In case of RPTs, which are extra-ordinary in nature or are not entered into during the ordinary course of the company’s business, they all must be approved by the general meeting prior to execution.
- (10) In the event of requesting prior approval of the general meeting, the notice to the general meeting must include the following:
- (a) Details of transactions as follows:
    1. Name of the beneficiary related party.
    2. Nature of the transaction, terms and conditions, and rationale.
    3. Value of the transaction
    4. Period of completion of the transaction.
    5. Any other data related to the transaction.
    6. An independent valuation must be carried out in case of purchase or disposal of assets.
  - (b) A note explaining the opinion(s) of the audit committee and the board regarding the proposed transaction, and an undertaking to bear responsibility for the related party executing the transaction as per the agreement.
- (11) Approval shall be granted on a case by case basis.
- (12) Approval must be explicit for each case and not to be implicit. It shall specify details of the transaction.

- (13) A related party cannot and shall not take part in voting over the resolution regarding the transaction.
- (14) All RPTs must be disclosed, and segregating all payable amounts due to them, and receivable amounts due from them.
- (15) The chairperson shall ensure sending details of all such transactions to every shareholder along with the notice to the general meeting, covering the RPT details as well as a statement signed by all directors, except the related party, confirming that the transaction is fair and reasonable and it is in the best interest in the company's shareholders.
- (16) The annual report of the company must disclose details of all RPTs.
- (17) Auditors, during the subsequent year audit, shall ascertain whether the related party the discharge all of its obligations under respective transactions.
- (18) International Financial Reporting Standards shall be used as a benchmark when examining and disclosing such RPTs.
- (19) Transactions concluded in violation of these rules shall be considered void and cannot be claimed against the company and shareholders. The related party shall bear liability for all damages resulting therefrom.

## Tenth Principle: Audit Committee and Internal Controls

The board of directors is the entity responsible for ensuring the veracity of the company's transactions and risk management. Therefore, the board must ensure, through its own committees, that the executive management has in place robust internal controls and systems for risk management aimed to safeguard shareholders' interests and the company's assets.

### Explanatory Notes and Guiding Procedures:

- (1) The board of directors shall establish an audit committee (the "**committee**") and set out its terms of reference detailing: the names of its members, its competences and functions, duties and any other provisions relating to its work or tasks.
- (2) The board shall, when constituting the committee, abide by the following :
  - (a) The committee shall comprise of, at minimum, three directors, the majority of whom shall be from the board's independent directors.
  - (b) One member, at least, shall have finance and accounting expertise.
  - (c) In all cases, the chairperson of the committee must be selected from the independent directors at the committee.
- (3) The committee has to assist the board in the following tasks:
  - (a) Validating and verifying the overall efficiency of the executive management in implementing the operational directives and guidelines set up by the board.
  - (b) Evaluating and monitoring the adequacy of internal control systems and their efficiency.
  - (c) Creating policies for safeguarding the company's human, material and intellectual resources and assets.
- (4) Meetings of the committee are deemed to have quorum if the majority of independent directors of its membership are present.
- (5) The committee must elect in its first meeting its chairperson, provided that the chairperson is an independent director. The board may name the chairperson in the committee formation resolution. It is not permitted to simultaneously hold the chairpersonship of any two committees established by the board. Similarly, it is not permitted to combine the chairpersonship of the board and that of the audit committee.

- (6) The chairperson of the audit committee cannot and shall not be a member in any of other committees.
- (7) The audit committee shall submit to the board an annual plan through which it shall discharge its tasks and competences.
- (8) The audit committee, at minimum, shall enjoy the following competences:
  - (a) Consideration and review of the internal audit system, and consequently submitting an annual written report outlining its opinion and recommendations.
  - (b) Consideration of the internal audit reports and follow up remedial action with regard to the comments therein.
  - (c) Providing recommendations to the board of directors vis-à-vis the appointment and removal of external auditors as well as specifying their fees. The recommendation must bear in mind the independence of such auditors.
  - (d) Following up the work of the external auditors and approving any non-audit services which they are assigned during the audit process.
  - (e) Consideration of the audit plan in conjunction with the external auditor and comment thereon.
  - (f) Consideration and follow up of the comments of the external auditor on the financial statements.
  - (g) Consideration of quarterly and annual financial statement prior to their presentation to the board, providing opinion and recommendations.
  - (h) Consideration of the adopted accounting policy, providing opinion and recommendations thereon to the board.
  - (i) Ascertaining the adequacy and sufficiency of the internal control systems, either through examining the regular reports of internal and external auditors or appointment of external consultants.
  - (j) Overseeing the preparation of financial statements including but not limited to the following:
    1. Review annual and quarterly financial statements prior to publication.
    2. Review the reservations and qualifications of external auditors in the draft financial statements (if any).
    3. Discuss accounting principles in general, focusing on any changes in accounting policies and principles that had taken place and their impact on the financial position of the company.
    4. Ensure compliance with disclosure requirements prescribed by CMA.
  - (k) Serving as a communication channel between the board, external auditors and the internal auditor.
  - (l) Reviewing the details of all proposed RPTs, and providing appropriate recommendations to the board.



- (m) Devising a risk management plan, obtaining approval by the board and following up its implementation. The plan shall, at minimum, include the following:
    - 1. Key risks which the company is exposed to and their probability (risk appetite).
    - 2. Mechanisms for identification, measurement and monitoring of these risks.
    - 3. Mechanisms for periodic examination, detection and reporting of risks (especially new risks).
    - 4. Means to mitigate risks , if avoidance is not possible.
  
  - (n) Setting and reviewing the company policies pertaining to risk management, taking into account the company business, changes in market conditions and the company's investment and expansion tendencies and approach.
  - (o) Setting up an executive programme for risk management in the company, and providing training or orientation to the board and the executive management.
  - (p) Submitting analytical reports periodically, or as directed by the board, on risk status and management.
  - (q) The committee may seek the assistance of any other entity on a consultancy basis to assist the committee in performing its duties.
  - (r) The committee shall submit its recommendations to the board at the time determined by the board.
- (9) The committee, in addition to the powers and authorities stated in its formation resolution shall, to effect its functions, have the following powers and authorities :
- (a) Request the presence of the financial manager and head of internal audit in its meetings.
  - (b) Request information from any employee of the company.
  - (c) Seek advice and assistance from professional and competent persons.
- (10) The committee has to hear the views of external auditors prior to submitting accounts to the board for resolution.
- (11) The committee has to meet with external and internal auditors separately, at least once per annum, to hear their views and to consult them vis-à-vis enhancing the level of corporate governance and compliance.
- (12) Internal auditors, under the supervision of the audit committee, have to review internal control systems pertaining to financial statements, to ensure their proper design, implementation and execution in every operational aspect of the company.

**Eleventh Principle:  
Nomination and  
Remuneration Committee**

The company shall adopt a transparent method in preparing the nomination policy targeting directors of high competence and calibre, without prejudice to the right of any of the shareholders to stand for election or to nominate whoever they see fit. The company shall develop a proper remuneration and incentives policy to attract competent executives with proper wages and remuneration.

Explanatory Notes and Guiding Procedures:

- (1) The board shall establish a nomination and remuneration committee (the “**committee**”) with the aim of assisting the general meeting in the nomination of proficient directors and the election the most fit for purpose. Moreover, the committee aims to assist the board in selecting the appropriate and necessary executives for the executive management.
- (2) The board shall set out written and published terms of reference for the committee detailing: names of the members, its competences, functions and responsibilities in addition to any other provisions relating to its work.
- (3) Subject to the provisions of Administrative Decision No. 11/2005 on the rules of remuneration and sitting fees for directors of public joint stock companies, the committee shall exert its efforts to assist the company in formulating clear, credible and accessible policies to inform shareholders about directors’ and executives’ remuneration. However, additional performance based criteria have to be used to determine the bonus and remunerations of the chief executive officer and senior executive management.
- (4) The board, while constituting the committee, shall take into consideration the following points:
  - (a) The committee shall comprise of, at minimum, three directors.
  - (b) The committee shall convene at least twice per annum.
- (5) The committee must elect in its first meeting its chairperson. The board may name the chairperson in the committee formation resolution. It is not permitted to simultaneously hold the chairpersonship of any two committees established by the board.
- (6) The committee shall submit to the board an annual plan and of action.
- (7) The committee shall, at minimum, have the following competences:
  - (a) Provide succession planning for the executive management.

- (b) Develop a succession policy or plan for the board or at least the chairperson.
- (c) Prepare detailed job descriptions of the role and responsibilities for directors including the chairperson. This will facilitate orientate directors towards their tasks and roles, and appraise their performance .
- (d) Look for and nominate qualified persons to act as interim directors on the board in the event of a seat becomes vacant.
- (e) Notwithstanding the articles of association of the company, look for and nominate qualified persons to assume senior executive positions, as required or directed by the board.
- (f) Prepare a bonus, allowances and incentive policy for the executive management.
- (g) Review such policies periodically, taking into account market conditions and company performance.
- (h) Taking into consideration avoiding conflict of interests, the committee may, upon obtaining the approval of the board, seek the assistance and advice of any other party in order to better deliver its tasks.

## **Twelfth Principle: External Auditors**

The board of directors is the responsible authority for the veracity of the financial statements, which are presented to the shareholders through the external auditors, who are appointed by the general meeting to ensure that the annual statements presented to the shareholders are free from any material misstatement or misrepresentation.

### Explanatory Notes and Guiding Procedures:

- (1) The audit committee shall invite three proposals from among the audit firms approved by CMA. The audit committee shall provide a justified recommendation to the board to select on the competing firms to be appointed as the external auditor for the company. If the board approves the recommendation, then it will list it in the agenda of the ordinary annual general meeting.
- (2) The ordinary annual general meeting shall appoint the external auditor for a term of one financial year, renewable for other similar terms, providing they do not exceed four (4) consecutive financial years. After completion of fourth consecutive year, the firm may be reappointed once again only after a cooling off period of two consecutive years.
- (3) The external auditor appointed by the general meeting to audit the company's accounts is prohibited from providing non-audit services, which do not fall within normal audit work, in order to maintain its impartiality and independence.
- (4) The external auditors, as part of their audit procedure, must report to the shareholders any significant concern(s) that come to their attention such as the following:
  - (a) The adequacy and efficacy of the internal control systems currently in place in the company.
  - (b) Ability of the company to continue its operation. This view is expressed separately from the board's view.
  - (c) Extent of coverage of the company's regulations and bylaws, adequacy of such regulations and bylaws and compatibility with the company's circumstances; and the degree of faithfulness in their implementation. .
- (5) The external auditors shall report to the board all detected or suspected violations. In case, the detected or suspected violations are material, the

respective regulatory authority must be provided with a copy of the aforementioned report, without permission of the company or board of directors.

- (6) The external auditors of the company have to ensure that the audit system and internal controls related to the financial statements have been designed and implemented efficiently and in ways that will limit the risks of financial falsification or misrepresentation.

**Thirteenth Principle:  
Corporate Social  
Responsibility**

Corporate Social Responsibility (“**CSR**”) is linked to the company purposes and activities. The company shall seek to exercise its role as good citizen and to mitigate any adverse impact of its activities on the national economy, community or environment at large.

Explanatory Notes and Guiding Procedures:

- (1) The company (represented by the board of directors) has to develop a CSR charter or code. The board shall task the executive management or an external consultant to provide a policy proposal for approval by the board.
- (2) The executive management shall set out a strategy or an annual plan, through which it will deliver the company’s CSR philosophy, policies, and community-based principles. The strategy or plan has at minimum outline the following items:
  - (a) Allocated budget.
  - (b) Available support and participation means.
  - (c) The values and principles which the company seeks to disseminate through the different CSR activities.
  - (d) Community segments or social fields targeted by the company.
- (3) The annual report shall contain a special report on CSR activities detailing such activities, expended amounts, and its impact and sustainability assessment.

**Fourteenth Principle:  
Annual Reports**

Annual reports of the company shall indicate whether the practices of the board, the directors and the executive management is in line with the principles, standards and best practices of good corporate governance.

Explanatory Notes and Guiding Procedures:

- (1) The annual report shall contain a summary of the management deliberations and analysis in addition to the board's opinion on the following matters:
  - (a) The approach adopted by the company in executing its business and development proposals
  - (b) Investment opportunities and challenges.
  - (c) Analysis of the company products
  - (d) Detailed explanation of the company business and operations.
  - (e) Risks encountered by the company.
  - (f) The internal audit and control systems and their adequacy.
  - (g) Discussion over the financial and operational performance of the company.
- (2) The annual and quarterly financial statements, price reports and those reports submitted to the regulators, which are prepared by the board, shall contain balanced and understandable evaluation of the company accounts.
- (3) The company's annual reports shall contain a separate chapter on corporate governance highlighting extent of compliance with the requirements of this Code. Such chapter shall include, at minimum, the items and requirements set out in Annexure No. (3).
- (4) The auditors' report shall contain an affirmation that the above mentioned annual report is free from any material misstatement or representation.

## **Annexures**



## **Annexure No. (1): Minimum information that must be provided to the board**

1. Estimated capital and operating budget and any updates.
2. Quarterly results of the company.
3. Minutes of the board committees.
4. Information on recruitment, resignation, removal and remuneration of key personnel.
5. Material notices of penalties, fines and causes.
6. Serious accidents, dangerous incidences and pollution related problems.
7. Material default in financial obligations to or by the company.
8. Matters pertaining to possible public suits or product liability claims of substantial nature.
9. Joint venture agreements.
10. Transactions involving substantial payment towards intellectual property, goodwill and royalties .
11. Problems arising from industrial and commercial relations, including new wage agreement.
12. Sale of investment and assets which are not in the normal course of the company's business.
13. Statement of compliance, or not thereof, with any regulatory requirement.
14. Details pertaining to the possibility of the company's exposure to risks of fluctuations in foreign currency exchange rates, and steps taken to hedge such risks.

## **Annexure No. 2: Standards of Professional Conduct**

### **1. Professionalism**

- a. The director is required to possess adequate knowledge for the performance of his duties as director. He/ she should acquaint him/ herself with developments in the respective field of knowledge through continued education and endeavour to improve his/ her efficiency as director.
- b. The director is responsible for comprehending the functions of the company (he/ she is directing) and realising all of its direct and indirect aspects. He/ she has to be fully aware of the company affairs, business and operations.
- c. The director is required to comply with the Code and ensure the company's compliance with the same.

### **2. Due Diligence**

- a. The director has to act with due diligence and all necessary care in discharging his/ her duties as director.
- b. The director must assist the board of directors in improving the management of the company to safeguard and enhance the shareholder's interests.
- c. The director has to attend all the meetings of the company and contribute effectively to discussions, save where there is an ethical or legal preclusion. In case a director is unable to attend any meeting, he shall arrange for obtaining leave for absence as per the procedures set out by the board.

### **3. Integrity**

- a. The director shall be honest at all times and act in good faith in the best interest of the company.

- b. The A director must exercise and maintain independence in judgment and resolutions at all times. He/she must take reasonable steps to be convinced of the soundness of the resolutions of the board.
- c. The director shall at all times avoid any compromise to his/ her independence.
- d. The director who is appointed at the instigation of a major shareholder shall act in the interest of the company and shareholders in general, and not only the interest of the shareholder who has nominated him/ her. Where obligations to other persons or bodies preclude a director from taking an independent position on an issue, he/ she must disclose this position and refrain from taking part in the board's consideration of the issue.

#### **4. Conflict of Interests**

- a. The director must at all times maintain transparency, avoid personal and professional conflicts of interest and disclose all direct or indirect contractual interests with the company.
- b. The director shall not abuse or exploit his/ her board membership of the board to gain an appropriate advantage. More specifically, he/ she shall maintain confidentiality of all information he/ she obtains in his/ her capacity as director and shall not use such information inappropriately.
- c. The director must make sure that any information which is not yet publicly available, or which would have a material effect on the price of the company's securities or firm value, is not provided to anyone who may influence subscriptions, offers of, buy and sell shares.
- d. The director shall not take advantage of his/ her board membership directly or indirectly, or gain personal benefits to him or any related party.
- e. The personal interest of a director or related parties must not take precedence over those of the company's shareholders in general.
- f. Full disclosure of any actual conflict or potential conflict of interest must be made to the board. If the situation has not been addressed properly, one must take into consideration the importance of potential conflicts, related or expected results.
- g. In case a conflict arises, the director must refrain from participating in deliberations and voting over the subject of conflict. It is preferred that the

conflicted director exit from the meeting at the time of debate over the subject of conflict of interests.

- h. In case a director receives documents pertaining to a matter which carries a potential conflict of interests, he/she shall return such documents to the chairperson or company secretary stating the potential conflict of interest.
- i. In all of the above cases, the board should consider whether or not the expertise of the conflicted director is pivotal for the board to form an opinion, and whether the board can avail of or access such expertise by other means, mitigating in the process, the impact of conflict of interests.
- j. . In case of continuing material conflict of interest the director must carefully consider resignation from the board.
- k. The director is prohibited from improper use of information which he/ she acquires ex officio. The prohibition applies irrespective of whether or not the director or a related party would benefit directly or indirectly, or the company would be harmed.
- l. The director shall hold fast to and comply with all regulations and directives pertaining to selling and buying company shares as well as share trading regulations and controls laid out by the board. A director shall not deal in the shares of the company based on short term considerations.

## **5. Compliance with the Law**

- a. The director shall obtain knowledge of the legal and regulatory framework in which the company operates.
- b. The director should take necessary measures to ensure his/ her compliance and the compliance of the company with all the relevant laws and regulations.
- c. The director shall obtain, where necessary, legal, financial or professional advice on the company affairs or on discharging of his/ her fiduciary duties and obligations.

- d. In case a director suspects a conflict of interest or doubts the objectivity of the advice he/ she obtained, he/ she should obtain advice from independent advisors or consultants, other than those of the company.

## **6. Access to Information**

- a. The director should insist on obtaining full, adequate and timely and cumulative information on all material developments in the company.
- b. The director must employ such information to the benefit of the company, whereby he/she shall be an effective director, and cognizant of the company evolution. Moreover, he/ she would take the lead in the decision making process within the board of directors. In addition, he/ she would foresee any aspect or implication for any developments of the status quo of the company.
- c. The director should insist on providing sufficient and timely information to all directors with ample time to consider the issues brought before them.
- d. In case the information provided was not complete or sufficient, directors must make appropriate objection to the shortcoming of the management in providing such information. If the circumstances require so, directors may abstain from voting on a particular issue on the basis of non-availability of sufficient time to appropriately consider the issue. A director may request to record his/ her abstention and its causes in the minutes of the meeting. It might be appropriate to vote against the resolution or attempt to have it postponed until appropriate information is available.

## Annexure No. (3) Items to be covered in the report on corporate governance

1. The company's philosophy vis-à-vis the principles of corporate governance and a detailed report on how the company has applied those principles.
2. Board of Directors
  - 2.1 Composition and category of directors for example independent director and nominee director for institutions represented as lender or as equity investor.
  - 2.2 Board meeting and the last general meeting attendance for each director.
  - 2.3 Number of other boards or board committees where the director is a member or chairperson.
  - 2.4 Number of board meetings held and dates.
3. Board committees
  - 3.1 Brief description of terms of reference of these committees.
  - 3.2 Composition, names of members and chairperson.
  - 3.3 Meetings and attendance during the year.
4. Process of nomination of directors
5. Remuneration
  - 5.1 Total of remuneration (bonus, sitting fees, etc.) paid to all directors.
  - 5.2 Total remuneration paid to top executives (top five) including salary, benefits, allowances, bonuses, options, gratuity and pension etc.
  - 5.3 Details of performance based bonuses, awards and incentives along with performance criteria.
  - 5.4 Employment contracts, notice periods and severance fees.
6. Details of non-compliance by the company  

Penalties and strictures imposed on the company by the MSM or CMA or any other regulatory authority during the past three years.
7. Channels of communication with the shareholders and investors:
  - 7.1 Verifying that quarterly results are sent to each shareholder and the procedures followed accordingly.
  - 7.2 Posting such results on the website, if any.
  - 7.3 On the internet if the company website is displaying official press releases.
  - 7.4 Presentations made to institutional investors or analysts.

- 7.5 Annual report if management deliberations and analysis are contained therein.
  
8. Market Price data
  - 8.1 Highest/ lowest share price during each month of the last financial year.
  - 8.2 Performance in comparison with MSM index (for the relevant sector).
  - 8.3 Distribution of shareholding.
  - 8.4 Outstanding securities or any convertible instruments, conversion date and likely impact on equity.
  
9. Specific aspects where the provisions of corporate governance have not been complied with and reasons for such non-compliance.
  
10. Explanatory notes and professional profile of the statutory auditor.
  
11. Any other important matter.

## Glossary

- a. **General Management Framework of the Company:** means all or any of the following : articles of association, management agreements, systems, internal regulation and other administrative decisions.
- b. **Independent director:** means the director who is independent and have experience, proficiency enabling him to support the decision making process and company management to serve its purposes and objects.
- c. **Non-executive director:** Means the director who is not exclusively engaged in directing the company (i.e. he/ she is not an employee), or who does not draw a monthly or an annual salary from the company
- d. **First degree relative:** includes the father, mother, sons, daughters and spouse or spouses.
- e. **Specialised Committees or Committees:** Board committees as provided for in Chapter six of this code.
- f. **Executive office:** every person reporting to the chairperson or chief executive officer.
- g. **Parent company:** means the enterprise holding at least 50% of the capital of the company.
- h. **Subsidiary company:** means the enterprise the company holding 51% of its capital.
- i. **Associate company:** means the enterprise the company holds 20% of its capital.
- j. **Key management executives:** Persons having powers and authority and responsibility in planning, directing and monitoring the business of the company directly or indirectly.