

2019

# Awal Gulf Mfg. B.S.C. (c) Corporate Governance Guidelines

CLOSED BAHRAINI SHAREHOLDING COMPANY

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## **First: Preliminary Provisions**

### - Preamble

The guidelines established by the Board of Directors of Awal Gulf Manufacturing B.S.C (c) “Awal Gulf” provide comprehensive framework & structure within which the management can effectively pursue the Company’s internal controls for the benefit of all the stakeholders. In particular, this framework provides to strengthen the relationship of all stakeholders by transparently allowing them access to relevant and credible information. The Board of directors have agreed that these guidelines shall act as the charter for the corporate governance subject to amendments whenever required.

### - The goals of corporate governance

These guidelines reflect the collection of framework for exercising various controls, principles, standards, policies and managerial operations adopted by the company, the entire organization can adhere to these standards and help company achieve its objectives. The objective of the corporate governance is to implement best management practices by the board of directors, adherence to the local regulations and work towards benefit of all stakeholders of the company. This will also ensure most professional conduct by the board of directors, ensure adequate internal controls across the organization and ultimately benefit stakeholder interests.

### - The importance of corporate governance for Awal Gulf

Corporate governance is concerned with the manner in which affairs of the company are being managed by the Board of Directors and the Executive Management in order to achieve the following goals:

- Reinforcing the mechanisms that support envisioning the company’s goals and future strategies while following up their implementation through clear performance indicators.
- Develop effective mechanisms in order to manage Awal Gulf and its subsidiaries’ affairs while implementing decision making and control procedure mechanisms.
- Protect the interests and rights of the stakeholders.

- Establish an administrative body that is accountable to shareholders and other stakeholders.
- Strengthen adherence to the applicable policies, regulations and rules.
- Ensure an atmosphere of transparency and adequate disclosure.

Awal Gulf believes that effective corporate governance requires a proactive Board of Directors and Executive management that believes in the importance of these guidelines. In addition, the existence of an effective and clear organizational structure in terms of roles, specializations and responsibilities. The existence of a proper internal control system is also required through the application of a number of functions such as proper planning, clarity of vision, policies and procedures, internal auditing (audit committee), corporate governance, commitment aside to offering a supportive and responsive working environment with this direction.

In this regard corporate governance is of great importance to Awal Gulf and the method to achieve effective governance of independent control is internal auditing (audit committee). The Board of Directors and the Executive management are the persons of interest and top beneficiaries of the audit operations and control mechanisms.

### **Second: The Board of Directors and the Executive Management:**

- The operating policies, rules and regulations of the Board of Directors:

The rules and procedures of the Board of Directors explain the composition of the council. They also determine its responsibilities, the foundations and principles that govern the works of the council. In addition to determining the means of communication with contributors and executive management at Awal Gulf.

- The structure and composition of the Board of Directors:

Awal Gulf complies with in regard to the formation of the Board of Directors:

1. The Board of Directors shall consist of seven members, their term of office is a three year period on a renewable basis. The number of the members can vary to address any additional requirements such as retirement, termination of members or in the case of induction of new shareholders.
2. The majority of the Board of Directors members shall be executive members. While majority of the directors of the company shall be non-executive members, the company may appoint 'observer' members representing any stakeholder for a period and terms as fixed by the board of directors.
3. The number of independent members shall not be less than one member.
4. The Chairman of the Board of Directors shall not hold any other executive position at the company such as the position of Chief Executive Officer and Managing Director.
5. The company shall make clear the completion of the term of membership. The general assembly may at any time remove all or some of the members of the Board of Directors even if the company's regulations stipulate otherwise. Without causing a breach of right in terms of compensation to who has been removed if the removal was for an unacceptable reason or at an inconvenient time.
6. Upon termination of the membership of any of the members of the Board of Directors in any of the means of termination of membership, the Ministry of Industry, Trade and Tourism shall be informed of the reasons for such termination.
7. If a member of the Board of Directors resigns and has observations on the company's performance, he shall submit a written statement to the Chairman of the Board of Directors.

#### - Functions

The Board of Directors is the top administrative entity in the company. It represents and protects the company's interests. The Board of Directors is responsible for leading and controlling the activities of the company as well as the continuous monitoring of its performance. The board achieves these objectives by adopting and implementing its policies and objectives while supporting its management in performing its tasks according to specific criteria. The Board of Directors is responsible for directing executive management and setting appropriate controls for

its work, including defining a clear company vision and strategy while determining the basis for the delegation of authority to management, policies and limitations in order to operate within its boundaries. In addition to the specializations and authorities stipulated in the company system.

The Board of Directors exercises the following core functions:

**1. Adopting the company's strategic initiatives, its main objectives and supervising their implementation, including:**

- Develop the overall corporate strategy, key action plans as well as review and guide the risk management policy.
- Determine the optimal capital structure of the company, financial objectives and approval of annual budgets.
- Supervise the company's major capital expenditure plans in addition to the owning and controlling assets.
- Set performance goals and monitor implementation and overall performance in the company.
- Periodic review of the organizational and functional structures in the company.

**2. The development of systems for internal control and general supervision, including:**

- Develop a written policy to regulate conflicts of interest and address possible conflicts of interest of the members of the Board of Directors, Executive Management and stakeholders, including misuse of company assets and facilities, and misconduct resulting from connections with related persons.
- Ensure the safe operation of the financial and accounting systems including the systems related to generating financial reports.
- Ensure the application of risk management supervisory systems through identifying the general perception of risks facing the company while discussing those risks with transparency.
- Yearly revision of the effectiveness of the company's internal control procedures.
- Develop a special corporate governance system which does not contradict with the regulations of the corporate governance charter issued in 2018 while supervising it, monitoring its effectiveness and amending it whenever necessary.

3. **Develop clear and specific policies, standards and procedures for the Board of Directors membership and place them into effect after approval by the General Assembly.**
4. **Develop a written policy that governs the relationship with the persons of interest in order to protect and preserve their rights, the policy in particular should cover the following:**
  - Mechanisms related to compensating the stakeholders in the event of their right being violated recognised by the regulations and protected by the contracts.
  - Mechanisms of sorting out complaints and differences that might arise between the company and the stakeholders.
  - Appropriate mechanisms to establish good relationships with clients and suppliers while keeping their information confidential.
  - The rules of professional conduct for company managers and employees ensuring their compatibility with professional and ethical standards while regulating the relationship between them and stakeholders, provided that the Board of Directors sets up mechanisms to monitor the application of these rules and abide by them.
  - The company's social contribution and corporate social responsibility.
  - Develop policies and procedures that ensure that the company respects the rules and regulations and its obligation to disclose material information to shareholders, creditors and other stakeholders.

The members of the Board of Directors  
**Mohamed Ebrahim Khalil Kano**

*Chairman of the Board of Director      Non - executive member*

**Adel Mohamed Ali Mattar**

*Vice President and Managing Director      Executive member*

**Fawaz Zakaria Kaaki**

*Member of the Board of Director      Non - Executive member*

**Khalid Mohamed Ali Mattar**



*Member of the Board of Director      Non - Executive member*

**Hani Hashim Al Shakhs**

*Member of the Board of Director      Non - Executive member*

**Krishnan Kavasseri**

*Member of the Board of Director      Non - Executive member*

**Wajdi Mohamed Al Mekhlafi**

*Member of the Board of Director      Non - Executive member*

- Secretary of the Board

The Board of Directors shall appoint the Secretary of the board whose major responsibility shall be to record all meetings of the Board, maintain minute book and reports submitted by or to the Board. Under the guidance of the Chairman, the Secretary shall be responsible for ensuring timely access to information and coordination among Board members, shareholders, management and employees.

The responsibilities and roles of the secretary of the board of directors are included in the job description of this position.

The services of the secretary of the board shall be available to all of the members of the board of directors.

The secretary of the board shall not be terminated or appointed except through decision by the board of directors.

**Third: Committees affiliated to the Board of Directors**

In order to enable the board to exercise effective control over operations, the Board of directors is authorized to institute such committees of its members and non-members for a period as it deems fit. The constitution of such committees, mandate and period of operations of such committees shall be determined by the board of Directors. Such committees shall report to the Chairman of the Board with required outcomes. The Board of Directors from time to time may appoint or dismiss any such committee as it deems fit.

### **The Audit Committee:**

The committee is formed and its functions and controls are determined by the company's Ordinary General Assembly held on the 16<sup>th</sup> of July 2019, in accordance with the requirements of the Company Laws and the provisions of the Corporate Governance Charter 2018.

Audit committee is responsible to review the monitoring of internal controls and financial audits of the company, establish and monitor risk management and internal assurance policies of the company in order to protect assets of the company and interests of the shareholders. Audit committee is also responsible to recommend appointment of internal and external auditors and assess their performance. The audit committee is responsible for monitoring the company's business, verifying the integrity of the company's financial reports and internal control systems including in particular the following tasks:

1. Study and review the financial statements of the company prior to its presentation to the Board of Directors and provide technical opinion and recommendation in this regard.
2. Studying and reviewing the reports and observations submitted by the auditor and expressing opinions thereon.
3. Studying and reviewing the company's control systems while providing a report on the sufficiency of the system and other works in the scope of their specialisations. The Board of Directors may submit sufficient copies of this report at the company's head office at least 10 days prior to the ordinary general Assembly, to provide each shareholder with a copy of the report. The report shall be read during the Assembly.
4. Supervising the company's internal audit department to verify its effectiveness in the performance of the entrusted tasks to it.

5. Study the internal audit reports and follow up the implementation of corrective procedures for the notes contained therein.
6. Recommending the auditor to be appointed by the Board of Directors, their dismissal, the determination of their fees, the assurance of their independence, the review of their scope of work and the terms of their contract.
7. Studying and reviewing the company's auditor plans while verifying that they do not submit works unrelated to auditing and that they do not approve any work aside from auditing.
8. Studying the reports and notes of the company auditor on the financial statements while following up with their progress.
9. Studying the company's adopted accounting policies while giving their opinions and recommendations to the Board of Directors on it.
10. Reviewing the reports of the regulatory bodies while ensuring that the company takes the required actions on it.

In general, the Audit Committee shall, in the performance of its duties, have the right to investigate any matter that falls within its duties or any subject specifically requested by the Board of Directors. The committee shall have the right to access the company's documents and records. In addition to requesting any clarification or statement by members of the Board of Directors, Executive Management or company employees shall be sought for the purpose of investigating and inquiring about any information.

In addition to having the right to seek legal and technical advice from any external authority or any other independent consultant when necessary to assist the Committee in carrying out its duties while trying to verify any risk management and internal audit management defect. The management of the company shall inform the Chairman of the Audit Committee of any defect, violation and Fraudulence in accordance with its seriousness. Also, to ensure the independence of the Auditing Committee, the audit or Internal Audit manager and the Auditor shall have direct contact with the Audit Committee without an intermediary, which shall be formed by Awal Gulf according to the following rules:

- The members of the auditing committee are appointed by the Board of Directors in accordance to the members of the Board of Director's suggestion.
- The auditing committee shall not include any of the executive members of the Board of Directors.
- The auditing committee may consist of shareholders or others.
- The number of the auditing committee's members shall not be less than three and no more than five.
- The chairman of the auditing committee shall be appointed by the members of the committee during the committee's first meeting.
- The Committee shall be selected in a manner that includes the availability of various skills and expertise, putting into consideration the presence of appropriate expertise in the company's field of work, including a specialist in financial and accounting matters.
- The auditing committee shall be appointed to a period not exceeding three years and shall be reappointed according to the committee's needs.
- The auditing committee shall appoint a secretary from its members or from the company's employees.

#### The committee's meetings

- The Audit Committee shall meet on a regular basis, provided that its meetings shall not be less than three meetings during the company's financial year. The Committee may also convene a meeting whenever the need arises.
- The Committee shall meet at the invitation of its Chairman, or at the request of two members of the Committee, or at the request of the Internal Audit Department, or the Internal Auditor.
- The committee meets periodically with the company's auditor and internal auditor.

#### Conflict between the Audit committee and the Board of Directors

If there is a conflict between the recommendations of the Audit Committee and the decisions of the Board of Directors, or if the Board refuses to accept the recommendation of the Committee regarding the appointment of the company's auditor, their dismissal, determining their fees,

evaluating their performance or appointing the internal auditor, the report of the Board of Directors must include the Committee's recommendation, justifications and reasoning thereof.

The following table exhibits the members of the Audit Committee at its current session:

Mr. Hani Hashim Alshakhs	Mr. Khalid Mohamed Ali Mattar	Mr. Krishnan Kavasseri
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Conflict of interests and dealings with related parties:

Within the responsibilities and functions of the Board, it shall develop a written and clear policy to deal with cases of conflicts of interest that may occur or are likely to occur and may affect the performance of the members of the Board of Directors, Executive Management or other employees of the Company when dealing with the Company or with other stakeholders. This policy includes the requirements stipulated in the corporate governance charter. In light of this, the Board of Directors has developed the following policy:

#### **Fourth: Conflict of Interest Policy and Addressing Potential Conflicts**

##### - Policy Goal:

The goal of the policy is to state the procedures and strategies that govern the interests of the shareholders, the Board of Directors, company committees, top executives, employees, auditors, consultants and other stakeholders whenever necessary (They are referred to in this policy as "Stakeholders")

The policy is also intended to assist "persons concerned" to deal with conflicts in accordance with legal requirements and with the objectives of accountability and transparency applied by the company in its operations.

##### - Overview:

Conflict of interest arises when personal interests of individuals in any way interfere with the general interests of the company.

That Awal Gulf recognizes and respects the fact that "Stakeholders" have personal interests and have the right to participate in various activities, provided that this does not in any way cause conflict with the general interests of the Company.

The following are examples of conflicts of interest or situations where a conflict of interest might arise:

1. That one of the persons concerned uses his or her position in Awal Gulf or the information or business opportunities they obtain while working in the Company for personal benefits or for the benefit of a third party;
2. When a "Stakeholder" creates a company that carries out activities similar to that of the company.
3. When a "Stakeholder" such as a board member makes a decision or enters into a transaction or purchase for a company in which he has an interest.
4. The employee and / or any of his relatives shall perform any work for the suppliers or sub-contractors or competitors.
5. When one of the "Stakeholders" acts or has interests that may make it difficult for them to perform their work in the company objectively and effectively.
6. When one of the "Stakeholders" or a member of his or her family receives unlawful personal benefits because of his or her position at the Awal Gulf.
7. When one of the "Stakeholders" such as a member of the Board is financially compensated for consulting another competing company, or another company whose nature of work and activity is similar to Awal Gulf Manufacturing.

8. Awal Gulf and stakeholders must consider the interests of the company in cases of conflicts of interest, in accordance with the best conditions attainable. The "Stakeholders" shall refrain from influencing the Company's decisions in any business that creates a potential conflict of interest, including abstaining from voting on any decision or order subject to a potential conflict of interest, and are required to disclose any conflict of interest arising out of their relationship with the Company, in accordance with the means and methods of disclosure determined by this policy and related regulations in the Kingdom.

- Implementing the policy

This policy is implemented in the undermentioned stakeholders:

1. Top shareholders of the company who own 5% and more of the company's capital.
2. The members of the Board of Directors and the Company's committees.
3. Top Executives and Employees.
4. Auditors and company consultants.
5. Other stakeholders as appropriate.

- Cases of Conflict of Interest

The above-mentioned stakeholders must refrain from dealing with the Company in any business that may create a potential conflict of interest except in accordance with the rules contained in this Policy and the applicable laws and regulations in the Kingdom.

The conflict of interest is as follows:

- Conflict of interest associated with major shareholders:

All transactions and contracts with major shareholders and their relatives who own 5% or above of company stock either directly or indirectly have a controlling interest in any of its subsidiaries for the same terms as the transactions with third parties.

All transactions with major shareholders and their relatives who directly or indirectly own 5% or more of the Company's shares or have a controlling interest in any of its subsidiaries according to the laws and regulations are disclosed.

### Conflict of Interest associated with the Board of Directors:

1. The members of the Board of Directors may not without the approval from the ordinary general assembly and in accordance with the regulation set out by the specialized authority have any direct or indirect interest in the business and contracts made for the company's account.
2. The members of the Board of Directors shall inform the Board of any personal interest in the business and contracts made for the company's account and shall provide such notification in the minutes of meeting. The member holding any personal interest shall not participate in the voting on the resolution issued on this regard.
3. The members of the Board of Directors may not without the license from the ordinary general assembly and in accordance with the regulation set out by the specialized authority participate in any work that would compete with the Company or be dealing in one of the branches activities that it carries out.
4. The members of the Board of Directors may not enter into any business that would compete with the company or its competitors in one of the branches of activity that it carries out as the following:
  1. The member of the Board of Directors may not establish a company or own a major percentage of shares in another company or establishment, engaged in an activity of the same type of activity of Awal Gulf or any of its subsidiaries.
  2. Accept membership in the Board of Directors of a competing company or group.
  3. The member acquires a commercial agency or of sorts, whether hidden or not for another company or establishment competing with the company or its subsidiaries.



- Conflict of interest related to the executive management and employees of the company:

The Board of Directors shall be notified of any external business activities carried out by any executive in the Board of Directors and such business shall be approved by and disclosed to the Board in accordance with the laws and regulations in this regard.

In the event that the Executive member is resolved to go through with the said activity, they must present it to the Chief Executive Officer to study, review and recommend the matter to the Board of Directors in preparation for the issuance of the appropriate resolution thereon.

- Conflict of interest related to external and internal auditors and consultants:
  1. The company's external auditors must be independent.
  2. The independency of the internal auditor must be maintained and sufficient support must be provided to them.
  3. The appointment of any financial, legal or external auditor should take account of conflicts of interest and the set out provisions of related laws.

- Conflict of interest associated with other stakeholders:

All transactions and contracts made with suppliers and other clients of the Company or any of its subsidiaries shall be subject to the same conditions as the transactions with third parties in terms of evaluation, fair execution, disclosure or reporting.

### Additional provisions

In addition to the above, the following conflicts of interest should be considered for the members of the Board of Directors, the Company Committees and the Company's employees, and to be dealt with as follows:

1. Members of the Board of Directors, committees and employees shall not make use of or benefit from any of the Company's assets, information or investment opportunities presented to them or presented to the Company to achieve any personal interests or any other purpose that falls within the activities of the Awal Gulf. This includes investment

opportunities that fall within the activities of the company, or the company's desire to benefit from them. This prohibition shall also apply to the members of the board who resign in order to exploit investment opportunities - directly or indirectly - that the company wishes to benefit from and which they came to know about during their membership in the Board of Directors.

2. A member of the Board of Directors may not vote on the resolution of the Board of Directors and the Ordinary General Assembly in the business and contracts which are made for the Company's account if they have a direct or indirect interest therein.
3. When a member of the Board of Directors informs the Board of the possibility of a conflict of interest, that Member shall comply with the following:
  - The member shall not participate in the discussions or listen to the discussions of the Board or Committee with regard to the subject of interest to them except to answer questions and disclose substantive facts.
  - The member shall abstain from voting on the resolution after notifying the Board, and in all cases when the Council votes on a subject for which a member of the Board of Directors has an interest, the voting process shall be conducted in a confidential manner.

#### - Confidentiality

Maintaining confidentiality of information related to the company and its activities in addition to not disclosing said information to any other person or third party. The members of the Board of Directors shall not disclose any company secrets except in the Ordinary General Assembly meetings. The members shall not exploit their knowledge by virtue of their membership in order to achieve personal interest to themselves or their relatives or a third party. In such occurrence they will be removed and required for compensation.

#### - Supervision of the application and cases of violation of policy

The Audit Committee oversees the implementation of this policy by reviewing cases, transactions and contracts with stakeholders that are likely to involve a conflict of interest situation and to raise any recommendations it deems appropriate to the Board of Directors. In

addition, any violation of this policy is reported in accordance with the procedures Defined in the whistle-blowing Policy which will be added to this guideline at a later date.

- **Reviewing and modifying this policy**

This policy shall be effective as of the date of its adoption by the Board of Directors. The Board shall review this policy from time to time as necessary and shall not modify this policy without the approval of the Board.

**Fifth: Disclosure and transparency policy:**

- **Goal**

The objective of the disclosure and transparency policy is to ensure that Awal Gulf discloses all material matters in a timely and accurate manner, including the financial position of the company, performance and corporate governance, as well as reporting on disclosure guidelines, methods of classifying information and timing of the disclosure.

- **Disclosure of financial information:**

The Board of Directors shall approve the initial and annual financial statements of Awal Gulf. The statements must be signed by the Chairman of the Board of Directors, the Chief Executive Officer and the Finance Manager before they are distributed to shareholders and others. The preliminary and annual financial statements and the Board of Directors' report shall be submitted to the Ministry upon approval by the Board of Directors.

- **Disclosure in the Board of Directors' report:**

The company's Board of Directors shall issue its annual report within the time limit specified by the system, sends it to the ministry and announces it to the shareholders. The Board of Directors' report shall include a full presentation of the company's operations during the last financial year and all the factors affecting the company's business. It shall include all the requirements stated in the corporate governance charter and related articles of the Commercial Companies Law.

- **Corporate Governance Disclosure:**

Awal Gulf shall disclose corporate governance policies and procedures related to the company through the company's website or any other method in accordance with the company's policy, including the following.

- The Company's Memorandum.
  - The Governance Guide and other related documents.
  - Annual Governance and Compliance Report.
  - Any other reports or documents the company deems to enhance the disclosure and transparency process in a manner that does not conflict with the laws and regulations.
- **Disclosure of social responsibility policies:**

Awal Gulf discloses its contributions and policies in the area of social responsibility and procedures related to employees, society and the environment at least once a year in the Board of Directors' annual report.

- **Disclosures to the Regulatory Authorities**

The Board of Directors shall immediately notify the Ministry (as the case may be) of all statutory requirements specified in the laws and regulations, such as:

- Any changes in the structure of the Board of Directors (resignation, appointment, classification)
- Any changes in the structures of the committees
- Any changes in the Executive Management including the Chief Executive Officer and the Finance Manager.
- Awal Gulf shall disclose all required information under the issued corporate governance charter.

- **Limits of Disclosure**

The members of the Board of Directors shall not disclose any company secrets except in the Ordinary General Assembly meetings. The members shall not exploit their knowledge by virtue of their membership in order to achieve personal interest to themselves or their relatives or a third party. In such occurrence they will be removed and required for compensation.

- **Review the disclosure and transparency policy:**

The Board of Directors reviews the disclosure and transparency policies periodically and whenever necessary to ensure consistency with the rules and regulations and that they meet the requirements of various stakeholders.

**Sixth: Principle of obligation or clarification of reasons for non-compliance**

The rules, procedures and policies in this document constitute as the guidelines for Awal Gulf (closed company) unless other regulations stipulate that certain provisions of this document are mandatory and that no amendments shall be made except by a decision of the Board of Directors or the General Assembly on certain circumstances. Awal Gulf in its commitment to governance standards adopts "commitment or clarifying the reason for non-compliance" approach. Accordingly, all the optional requirements in the Corporate Governance Charter issued by the Ministry of Industry, Trade and Tourism referred to in this document will remain optional for Awal Gulf unless the relevant party deems it mandatory.

**Seventh: Final Provisions**

- Procedures for modifying this guide

As mentioned above, these guidelines are not amended until after Awal Gulf's Board of Directors' approval. In the event of any further amendments they shall not be included, unless the following procedures are met:

- Any amendments proposed by the management or consultants of the Company or any committee emanating from the Board of Directors or any other entity shall be reviewed and approved by the Board of Directors, except those policies and regulations that require approval by the Ordinary General Assembly. Then these amendments are listed within the Governance documents after their adoption by the Assembly.
- Any amendment required by the Corporate Governance Charter or the regulations of the Ministry of Industry, Trade and Tourism shall be immediately incorporated into these rules and shall be deemed as approved by the Board of Directors.