

CORPORATE GOVERNANCE GUIDELINES FOR LISTED COMPANIES



**International
Finance Corporation**
World Bank Group



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FOREWORD

The recent and serious outburst of financial scandals of major firms, whether concerning internal control, remuneration, conflict of interest or wrongful allotment of competencies, have impacted global companies and led market participants to request more transparency in the management, monitoring and control of publicly listed companies.

Corporate governance consists of an effective allotment of the competencies within the company. It should be conceived as a transparent and sound day-to-day running of the business, in the interests of all shareholders and stakeholders. Corporate governance implies the greater respect of the interest of the company and its shareholders while taking into account the interests of all stakeholders. Ensuring convergence of such diversity can only result in more stability, better information flows, confidence and effective leadership, while reducing the cost of capital and providing companies with higher-return on investments.

It is critical that listed companies adopt sound systems of corporate governance. These companies present a peculiar profile necessitating increased ethics and good governance. Listed companies typically have a widely-spread share capital structure, often diluted over hundreds or thousands of shareholders. They function with a highly significant number of employees and play a very important role in national economies. They are also subject to numerous laws and regulations as well as financial obligations rendering their monitoring truly complex. Hence, strong governance practices are a business imperative for listed companies.

As Lebanon continues to evolve economically and financially, there is an urgent need for its listed companies to adopt high-quality business-governing standards. Listed companies are generally expanding and constantly looking for new sources of financing. A proper and efficient governance system must therefore be developed for these firms. It is with such concern that the present Guidelines have been drafted. The Corporate Governance Guidelines for Listed Companies on the Beirut Stock Exchange aim at providing such companies with guidance for a sound system of corporate governance conferring upon managers, directors, shareholders and stakeholders' incentives to always perform in the best interests of listed companies and the Lebanese economy in general.

Ultimately, these Guidelines for Listed Companies are only truly useful if they are critiqued, debated, and adopted by the target audience: Listed Companies. This is only the first version of the Guidelines which should be viewed as a living docu-

ment that will be tested, amended and improved during the coming years. The Guidelines are part of a continuous consultation effort, and we welcome your comments and observations which may be sent to the following email address: info@transparency-lebanon.org

As a final note, I would like to thank the Center for International Private Enterprise (CIPE) and the International Finance Corporation for their valuable support in our efforts to promote the practice of corporate governance in Lebanon. We hope that these Corporate Governance Guidelines for Listed Companies can serve as a useful tool for Listed Companies in Lebanon.

Gerard Zovighian,
Vice-Chairman, LTA
Chairman LCGTF
Board Member, Transparency International (TI)

PART 1

PRELIMINARY PROVISIONS

ARTICLE 1: PREAMBLE

a) These Guidelines include the rules and standards that should regulate the management of joint-stock companies listed on the Beirut Stock Exchange to ensure their compliance with the best governance practices, in the interests of their shareholders and other stakeholders.

b) These Guidelines constitute guiding principles on corporate governance for companies listed on the Beirut Stock Exchange. However, each Company should adapt and select the principles that are best adapted to its specific structure and business model.

ARTICLE 2: DEFINITIONS

a) Expression and terms in these Guidelines shall have the meaning they bear in the Lebanese Code of Commerce and in the glossary of defined terms used in the regulations and the by-laws of the Beirut Stock Exchange, unless otherwise stated in these Guidelines.

b) Whenever used in these Guidelines, the following terms shall have the following meaning:

Board refers to the Board of Directors of the Company;

Chairman refers to the Company's Chairman of the Board;

Company refers to each company listed on the Beirut Stock Exchange adopting these Guidelines;

Group refers to the companies with which the Company has shareholding relationships (e.g. subsidiaries, affiliates etc.);

Guidelines refer to these Corporate Governance Guidelines for Listed Companies;

LCC refers to the Lebanese Code of Commerce; and

Shareholder(s) refer to the shareholders of the Company

PART 2

RIGHTS OF THE SHAREHOLDERS

ARTICLE 3: GENERAL RIGHTS OF THE SHAREHOLDERS

Shareholders enjoy all rights conferred upon them by the LCC, the by-laws of the Beirut Stock Exchange and all applicable laws and regulations, including (i) the right to participate and vote at assemblies, (ii) the right to dividends and the right to a share in the profits of the Company, (iii) the right, subject to the provisions of the by-laws, to convey or transfer their shares, (iv) the preferential right to subscribe to capital increases, (v) the right to elect and dismiss members of the Board, (vi) the right to approve on major transactions, (vii) the right to inquire and have access to relevant information on the Company, and (viii) all rights described in these Guidelines.

ARTICLE 4: SHAREHOLDERS' RIGHTS AND ACCESS TO INFORMATION

a) The Company should develop in its own code of corporate governance¹ a detailed "list of shareholder's rights" fully elaborating the rights of Shareholders and including the rights described under these Guidelines. Such list should contain the policies and procedures designed to protect and exercise these rights.

b) The Company should determine in its code of corporate governance the type of information that is made accessible on an on-going basis to Shareholders².

c) Each Shareholder may at any time during regular business hours and upon reasonable notice, have

¹ Refer to article 9 c) (i).

² Such information should at least include the documents required by the LCC to be made available to shareholders prior to general assemblies. However, access should also be granted to other than what is required by the LCC as this is considered insufficient. Disclosure requirements should be more elaborated and include all comprehensive and accurate information which enable Shareholders to properly exercise their rights. Such information must be provided and updated on a regular basis, The Company must use the most effective means in communicating with the Shareholders.

access, in a timely manner and at the Company's registered office, to the Company's documents and records as permitted pursuant to the provisions above.

d) Clear policies regarding distribution of dividends in the interests of the Company and its Shareholders should be adopted and disclosed. Reference thereto shall be made in the annual report.

ARTICLE 5: SHAREHOLDERS' RIGHTS WITH REGARDS TO SHAREHOLDERS' MEETINGS

a) An annual general assembly should convene at least once a year within six months following closure of the expired financial year.

b) The Shareholders' assembly convenes upon notice of the Board. Subject to applicable laws and regulations, the auditor or Shareholders representing 5% of the Company's share capital may request from the Board to convene a Shareholders' assembly, on a specified issue proposed by the auditor or by the said Shareholders.

c) Notice, date, place, and agenda of the Shareholders' assembly should be given at least 15 days in advance of such meeting by means ensuring proper and timely notification of Shareholders. Each company should list the notification (or publication) means as adopted by the Company, which should include, at a minimum, postal mailing with acknowledgment of receipt and publication in five newspapers. Invitation should also be published on the Company and on the Stock Exchange's websites.

d) Shareholders or groups of Shareholders representing 5% of the share capital of the Company should be entitled to place items on the agenda of general meetings by communicating such items to the Board or to any person duly calling the meetings.

e) Prior to any Shareholder's meeting, and at the latest as of the call of such a meeting, each Shareholder should be given access to the internal corporate documents, including, on a non-limitative basis, the meeting's agenda, the Company's inventory, the balance sheet, profit and loss accounts and consolidated profits and loss

accounts, if applicable, the auditor's report, the Board's report, the annual report, the Company's by-laws, the Company's code of corporate governance and all documents and information that are required to be made available to Shareholders for the purpose of making informed decisions.

f) Prior to and during the general assembly, any Shareholder, regardless of his percentage in the Company's share capital, may ask questions to the Board concerning the suggested agenda or resolutions as part of the deliberations. The Chairman may not submit a resolution for vote until such time when no Shareholder is, in good faith, requesting the floor to ask a question concerning the said resolution. The Chairman and each Board member should answer properly submitted questions in good faith.

g) The Company shall not take any measure of which the object or the effect would result in affecting the voting rights of the Shareholders, which can be cast whether in person or by proxy. Subject to applicable laws and regulations, Shareholders should be allowed to cast their vote electronically provided secure methods are used.

h) The Company should publish on its website a summary of the minutes of the Shareholders' assembly within a reasonable period of time. The Company should also provide the Committee of the Exchange with a copy of the minutes.

ARTICLE 6: EQUITABLE TREATMENT OF SHAREHOLDERS

a) All Shareholders of the same class should be treated equally. Within any class, all shares should carry the same rights. All investors should be able to obtain information about the rights attached to all classes of shares. Any changes in voting rights should be subject to approval by those classes of shares which are negatively affected.

b) Insiders should refrain from using confidential or privileged information on the Company or any company within the Group that has not yet been made public, for direct or indirect personal use or for the purpose of obtaining an unfair advantage.

ARTICLE 7: PROTECTION OF MINORITY SHAREHOLDERS

a) Shareholders should be able to group themselves in order to ensure effective protection of their rights. Whenever a percentage is required for the exercise of a right, that percentage should be deemed satisfied if a group of Shareholders acting in concert manages to reach the said percentage (or if any Shareholder holds alone any such percentage).

b) The Board must ensure, whenever there is a majority Shareholder, that his strategy is coherent and in the interests of the Company and all Shareholders. Minority Shareholders should be protected from direct or indirect abusive action by or in the interests of controlling Shareholders.

c) Voting procedures for nomination of directors on the Board should provide Shareholders representing a specific minority percentage of the Company's share capital with the right to have a representative on the Board.

Refer to appendix 1 for further details in this respect.

d) Dissenting minority Shareholders with regards to decisions adopted at a large majority at the Shareholders' assembly with regards to (i) mergers or demergers, (ii) right to dividends, and (iii) modification of voting rights should be given a right to withdraw from the Company at a fair market price pursuant to a procedure that should be consecrated in the Company's by-laws.

e) Capital structures and arrangements which enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

PART 3 BOARD OF DIRECTORS

ARTICLE 8: GENERAL RESPONSIBILITIES OF THE BOARD

a) The Board is entrusted with the duty of ensuring full and effective control of the management of the Company in its best interests and those of its Shareholders, in accordance with applicable laws and regulations. While doing so, the Board should always take into account, to the extent practical, the interests of the stakeholders.

b) Regardless of his/her personal qualities and abilities, each director should consider himself/herself as representing all Shareholders and act accordingly in the performance of his/her duties.

c) The Company's Board members owe the Company and its Shareholders the duties of care and loyalty. In the discharge of their duties, Board members must at all times act in good faith, with candor, avoiding all potential or actual conflict of interest.

Refer to appendix 2 for further details in respect of the duty of loyalty and care

d) These duties are proper to the Board who shall assume the final responsibility to the Company and its Shareholders regardless of whether the Board constitutes special committees or authorizes other persons or entities to undertake specific operations.

The Board may delegate authority but the Board cannot delegate any of its ultimate responsibilities.

e) Failure to comply with the duties mandated herein should subject the Board and/or individual Board members, as the case may be, to liability to any aggrieved Shareholder.

ARTICLE 9: ROLE OF THE BOARD

a) In exercising its prerogatives, the Board:
(i) Defines the Company's strategy and objectives and establishes the Company's general policy on the basis of proposals submitted by the executive management;

(ii) Appoints the corporate officers in charge of managing the Company in line with that strategy;

(iii) Reviews on a regular basis the organizational structure of the Company implemented by the management and approves it; and

(iv) Monitors the management and secures the quality of information provided to Shareholders and to the market, through the accounts or in connection with major transactions.

b) The Board ensures that the management implements adequate policies and procedures with respect to internal control and periodically reviews these policies and procedures in the best interests of the Company and its Shareholders. Such policies and procedures should address:

(i) Identifying, preventing, appropriately managing and disclosing all potential conflict of interest which may arise as a result of the various activities and roles of the Company, as well as a result of its affiliation or transactions with other entities within the Group;

(ii) Reviewing the integrity of the financial statements both in their consistence and their preparation so as to ensure that they fairly and accurately represent the financial position of the Company;

(iii) Evaluating, monitoring and mitigating risks; and

(iv) Ensuring that all activities are carried out in compliance with laws and regulations.

c) The Board is vested with the duty of adopting³ and periodically reviewing:

(i) A corporate governance code outlining the corporate governance practices of the Company; and

Refer to Appendix 3 for further details in respect of the corporate governance code

(ii) A code of conduct regulating the relationships of the Company with its stakeholders.

Refer to Appendix 4 for further details in respect of the code of conduct

³ The Board is vested with the duty of adopting such Code but it is recommended to have the Shareholders' Assembly adopt the said code since some of the provisions included in the code fall within the Shareholders' assembly prerogatives.

ARTICLE 10: COMPOSITION AND STRUCTURE

a) Subject to applicable laws and regulations, the size of the Board⁽⁴⁾ should provide for sufficient diversity among the directors, while facilitating substantive discussion in which each director can participate meaningfully.

b) A majority of the Board members should be independent non-executive members who do not hold any management or executive position in the Company. Independent members of the Board should not be less than 2 members or one third of the members, whichever is greater.

Refer to Appendix 5 for further details in respect of the definition of independence.

c) The term limit of the members of the Board should not exceed a certain amount of years, subject to their liability for breach of duty of care and due diligence. Directors should always be entitled to reelection at regular intervals.

d) Notwithstanding the legal requirements governing cumulative Board membership, a director, to avoid any potential conflict of interest, should not accept or continue a seat on any additional board without first reviewing the matter with the corporate governance and nomination committee and obtaining the prior approval of the Board.

e) On termination of Board membership for any reason whatsoever, the Company shall promptly notify the Committee of the Beirut Stock Exchange and disclose in its annual report the occurrence of this event along with reasons justifying such termination.

ARTICLE 11: BOARD MEETINGS

a) The Board of Directors should hold meetings on a regular basis as well as meetings deemed appropriate because of particular circumstances. Pursuant to the duty of care, each director should make every effort to attend each Board meeting and each committee meeting on which he/she sits, spend the necessary time and meet as frequently as necessary to properly discharge his/her duties.

⁽⁴⁾ Pursuant to applicable laws and regulations, the number of members of the Board should be comprised between 3 and 12.

To that extent and even though personal presence is always preferable, attendance by secured means of telecommunication should be allowed.

b) The Chairman is in charge of presiding and convening of the Board and of establishing the agenda of Board meetings. The Chairman should be assisted by the corporate secretary. The agenda should be planned carefully and distributed to each Board member sufficiently in advance. Even though the Chairman is responsible for the convening of the Board, one third of the Board members should be allowed to request from the Chairman the convening of the Board.

c) All information and data important to the Board's understanding should, to the extent practical, be distributed to individual directors sufficiently in advance of the meeting. So as to properly discharge their duties, Board members should have access to accurate, relevant and timely information. It is the responsibility of the Chairman, along with the help of the corporate secretary, to ensure that every Board member has received such information.

ARTICLE 12: BOARD COMMITTEES

a) Pursuant to applicable laws and regulations, the Board may appoint consultative committees composed of directors chosen among the Board. The members of such committees will be in charge of discussing issues presented to them by the Chairman. Where such committees are established, their mandate, composition and working procedures should be well defined and disclosed in the corporate governance code of the Company. Each committee appointed by the Board should also adopt a charter outlining such information.

b) Each Company should select the committees necessary or advantageous to its functioning and monitoring, depending on the volume and nature of the Company's business as well as the share capital structure.

c) Even though these committees report to the Board and the Chairman, who remain collectively responsible for the duties undertaken by the various committees, the various reports drafted by the committees in exercising their functions should be made available to all Shareholders.

The corporate secretary ensures that such reports have been communicated to the Shareholders.

d) It is strongly recommended that each Company adopting these Guidelines seriously consider constituting the following committees:

- 1) An audit committee;
- 2) A regulatory and compliance committee;
- 3) A corporate governance and nomination committee; and
- 4) A compensation committee.

Refer to Appendix 6 for prerogatives of specialized committees.

ARTICLE 13: BOARD SECRETARIAT

a) Each Company adopting these Guidelines should have a corporate secretary in charge of registering and coordinating all Board meetings' minutes, records, books and reports submitted by and to the Board. The corporate secretary should also be in charge of coordinating among the various Board members as well as between the Board and the other Company constituencies, including Shareholders, management and employees. The corporate secretary should perform the same duties with regards to the committees of the Board.

b) The corporate secretary (6) should provide induction training on all corporate governance practices of the Company to every Board member.

c) The minutes of the meetings should summarize all substantial discussion and specify the decisions made, including questions raised and reservations stated.

ARTICLE 14: BOARD AND SENIOR MANAGEMENT TEAM

Pursuant to current applicable laws and regulations, dissociation of functions between Chairman and executive general manager remains impossible. However, it is strongly recommended that the Board appoints a deputy general manager who reports to the Board, as segregation of duties between the Chairman and the general manager constitutes a system of checks and balances embodied in sound corporate governance.

(6) The corporate secretary should have a legal background so as to properly discharge his duties.

PART 4

TRANSPARENCY AND DISCLOSURE

ARTICLE 15: DISCLOSURE OF INFORMATION

The Company should lay down in its code of corporate governance the policies and procedures related to disclosure of information as well as its communication policy in terms of frequency of publication of results, whether weekly, monthly, quarterly, semi-annually or annually.

ARTICLE 16: FINANCIAL INFORMATION

- a) Listed companies should take all appropriate action to comply with the following schedule:
1. Consolidated quarterly accounts published no later than a month after the end of the preceding quarter, if estimated or provisional accounts have not been published earlier;
 3. If the Company publishes estimated or provisional consolidated annual accounts, they should be published no later than one month after closing of the accounts and followed by final accounts, no later than three months after that time; and
 4. Certified final statements should be published within two months after the closing of the accounts.
- b) To the extent practicable, such financial information should be disclosed in accordance with high quality standards of accounting (7).

ARTICLE 17: ANNUAL REPORT

The annual report of the Company should focus, among others, on the following information:

- a) Objectives and ability to respond to market changes;
- b) Foreseeable risk factors;
- c) Major operations carried out over the financial year,
- d) Share capital structure and capital increases or decreases carried out;

- e) Capital arrangements implying degree of control disproportionate to equity ownership, along with major share ownership and voting rights;
- f) Benefits and profits, along with relevant accounting information;
- g) Dividends distributed to Shareholders;
- h) Results of annual audit and effectiveness of internal control, with an emphasis on risk;
- i) Fees paid to the external auditor;
- j) Information on the governance structure and policies, in particular, the major contents of the Company's code of corporate governance or policy and the process by which it is implemented;
- k) Board and committee meetings held, composition of the Board and committees, classification of Board members along with all relevant personal information and personal attendance or absence at each Board meeting and committee meeting;
- l) Relevant personal information on senior management: bios, resume, experience;
- m) The method of allocation of directors' compensation, as well as those of managers and the amount of such compensations, including those of the top ten executives;
- n) Performance-enhancing mechanisms providing incentives for the directors, managers and employees to always perform in the best interests of the Company, along with identity of beneficiaries and terms and conditions;
- o) Major issues regarding employees and other stakeholders;
- p) Related-party transactions entered into over the financial year and assurance that terms and conditions reflect principles of fairness and transparency and comply with the requirements of the law;
- q) Compliance with the principles contained in the corporate governance code and the code of conduct. In the event where the Company has not complied with the principles contained in one of its codes, it should disclose the reasons justifying such departure;
- r) Activities in terms of research and development; and
- s) If relevant, environmental considerations and social contributions.

(7) Ideally IFRS norms.

PART 5

CONTROL AND AUDIT MECHANISMS

ARTICLE 18: INTERNAL CONTROL

- a) Senior management is in charge of implementing a system of internal control aiming at promoting (i) efficiency of the Company's operations, (ii) reliability on financial and management information, and (iii) compliance with all applicable laws, regulations and supervisory requirements as well as internal policies and procedures.
- b) The audit committee should be responsible for oversight of the internal control system and report to the Board for approval or authorization.

ARTICLE 19: INTERNAL AUDIT

- a) The Company should have an in-house internal audit function providing critical oversight with respect to key areas of the Company's business and financial processes. The auditor reports directly to the audit committee of the Board and to senior management.
- b) The audit committee should ensure that internal auditors understand their duty to the Company and its stakeholders and exercise due professional care in the performance of their duties.
- c) The mission of the internal audit unit should include (i) auditing the Company's operations and records to ensure their accuracy and the efficiency of measures adopted within the Company, (ii) ensuring compliance with all applicable laws and regulations, (iii) preparing periodic reports at least quarterly on its audit activities and submitting such report to the Board, (iv) identify and assess problems with risk management, and (v) reporting any known violation of the internal control system of the Company.
- d) Internal auditors should not be allowed to additionally assume the positions of directors or employees of the Company or of any company within the Group. They should be forbidden to receive, directly or indirectly, any interest whatsoever from the Company so as not to compromise the objectivity of their judgment (8).

ARTICLE 20: EXTERNAL AUDIT

- a) An annual audit should be conducted by an independent, competent and qualified external auditor, in order to provide an objective assurance to the Board and the Shareholders that the financial statements represent the financial position and performance of the Company in all material respects.
- b) The external auditor's mandate should not exceed 3 years, though renewable.
- c) A rotation of the lead audit partner should be established on a regular basis.
- d) The Company should adopt policies and procedures to define the permissible and non-permissible non-audit related services that the external auditor is allowed to undertake or refrain from undertaking for the Company.

(8) Internal auditors should be forbidden to assume their position if (i) they have any financial interests in the Company in which they hold their position, (ii) they are direct or indirect members of the family of directors or managers of the Company, (iii) they have undertaken consulting or managerial functions in the Company for the five previous years, and (iv) they own any shares in the Company.

APPENDIX 1 – PROTECTION OF MINORITY SHAREHOLDERS

International best practice considers that it is not desirable for the Board to have directors represent the interests of various Shareholders. The protection of minority shareholders may be ensured through recourse to independent directors, who are supposed to protect the interests of all Shareholders. However, the protection of the interests of minority Shareholders has to be ensured among the Board in an efficient way. For example, in systems where election of the Board is determined by the simple majority vote of shareholders, minority shareholders may face a problem of representation. Cumulative voting⁽⁹⁾ is a way to ensure that minority Shareholders have an adequate say in the election of Board members.

It is the opinion of the authors of these Guidelines that each Company may validly add a provision to its by-laws whereby shareholders representing a specific percentage of the Company's share capital (such as 10%) are entitled to elect a Board member of their choice, provided that they suggest different names for such position. The LCC does not provide for cumulative voting and such mechanism is arguably in contravention with the one share one vote principle.

However, some authors have considered as valid the provisions of a company's by-laws whereby a group of shareholders is entitled to be represented on the Board, provided that such group provides a choice of candidates for such position.

(9) Cumulative voting is a system of shareholder voting that protects minority shareholders by multiplying one's voting shares by the number of candidates and allowing the shareholder to vote them all for one candidate to the Board. For example, if there are 5 directors to be elected and 10,000 shares issued, a shareholder with 2,000 shares could vote 10,000 for his candidate rather than being limited to 2,000 for each of the five candidates. Such a system is admitted in US laws but is not legally consecrated in Lebanon.

APPENDIX 2 – THE DUTIES OF LOYALTY AND CARE

All directors should consider themselves bound by the following obligations:

- Before accepting office, each director should ensure that he/she has familiarized himself/herself with the by-laws of the Company, its internal regulations and the general and specific obligations of his office;
- Each director should represent the interests of all Shareholders and should act under all circumstances in the best interests of the Company;
- Each director should ensure the effective functioning of the Board;
- Each director must take into account the legitimate expectations of all of the Company's partners or stakeholders (employees, clients, executives, suppliers and creditors);
- Each director must report to the Board any direct or indirect conflict of interest, whether actual or potential, in the Company's business and contracts and abstain from taking part in voting on the related resolution;
- Each director must comply with the spirit and the letter of applicable laws and regulations;
- The director should allocate the necessary time and attention to fulfill his/her duties, and should, subject to all applicable laws and regulations, consult the corporate governance and nomination committee before accepting any additional seat on another Board;
- The director should attend all meetings of the Board and meetings of the committees on which he/she sits;
- The director is under a duty to obtain all necessary information and request from the Chairman that such information be communicated;
- Regarding non public information, each director should consider himself bound by confidentiality obligations with regards to all information learnt upon nomination or during exercise of his functions;
- Abstain engaging in transactions in securities of companies where he/she, as a result of his or her duties, has had access to information not yet made public;

- Disclose all transactions entered into with the Company's securities, as required by applicable laws and regulations; and
- Attend the meetings of the Shareholders.

APPENDIX 3 – THE CORPORATE GOVERNANCE CODE

No code of corporate governance can replace the thoughtful and ethical conduct of a decent director or manager. However, such a code could provide all protagonists involved in the business of the Company with a strong knowledge on their rights and duties. It is strongly recommended that each Company adopting such a code or charter consecrates an explicit reference in its by-laws stating that the Company expressly undertakes to respect all rights and principles stated in the code.

The corporate governance code of the Company should contain among others, provisions relating to the following issues:

- (i) Preamble containing the mission, values and objectives of the Company;
- (ii) List of all shareholders' rights;
- (iii) General governance structure, compliance with and adherence to the corporate governance policies and procedures;
- (iv) Rules governing nomination, responsibilities and functioning of the Board;
- (v) Mandate, composition and working-procedures of the specialized committees;
- (vi) Materiality for rules concerning transactions undertaken by the Board, in particular transactions requiring multiple Board signature or prior approval of the Board;
- (vii) Rules governing delegation of powers to executive management and reporting thereof;
- (viii) Annual evaluation and training for directors;
- (ix) Rights and duties of Board members and managers;

(x) Communication policy for disclosure of information, whether financial or not; and

(xi) Organization of internal control as well as internal and external audits.

The corporate governance code should be distributed to all Shareholders upon the subscription to, or purchase or acquisition of shares by a new Shareholder and upon any revision or amendment of the said code. The code should also be distributed to any director, manager and officer, upon nomination and upon any revision or amendment of the said code. Finally, the code should be distributed to any stakeholder upon request. Any primary distribution or distribution among revision or amendment should be made at the Company's expense. However, any additional copies should be given at the person's expense.

In any given circumstances, the corporate governance code of the Company should be left free for consultation by any person evidencing a legitimate interest, at the Company's jurisdiction of incorporation. The code should also be made available to any party on the Company's website.

APPENDIX 4 – THE CODE OF CONDUCT

The Company should adopt a code of conduct regulating the relationships of the Company with its stakeholders, while enabling it to tackle its corporate social responsibility. The purpose of the code of conduct is to (i) ensure that the Company complies with all laws and regulations in respect of its activities and undertakings, and (ii) articulate a broad set of ethical standards that can be used as a practical guide in the conduct of employees and the decision-making process.

The code of conduct should envisage, among others, issues relating to:

- The conduct of insiders, whether employees, executives or non-executives and the values of the business with regards to the personnel.

- Implementation of a whistle-blowing procedure encouraging employees to communicate their concerns about illegal, unethical or questionable practices to the Board and senior management without fear of reprisal. Such communication should be made anonymously, so as to prevent any nuisance or negative reaction by the other employees or employees' supervisors. The procedure should be defined bearing in mind the following issues:

- **When?** The system should be implemented after (i) consultation of the representatives of the employees or the trade unions, and (ii) having individually informed each employee that such procedure has been implemented in the Company.

- **What?** Illegal and unethical behaviors should be well disclosed.

- **Who?** The question to be answered here is who is subject to this procedure. Should all employees be concerned? Certain companies, in light of their peculiar profile, might consider that some of their employees should not be concerned by the procedure since not having access to resources enabling them to identify potential unethical or illegal activities. However, it is recommended that the Company subjects all its employees to the whistle-blowing

procedure, so as to ensure the widest protection of the interests of the Company.

- **How?** The technical means for the transmission of information should be well defined: telephone, postal denunciation, e-mail or even physical presence. In addition, the addressee of such concerns should also be identified. The treatment of the denunciation could even be assigned to a third-party or organization.

- **Which consequences?** If the denunciation does not incur any result, the employee who triggered the procedure should not be held accountable, except if such denunciation was made in maliciously. The person should be presumed innocent until the wrongful behavior is proven and have access to all data regarding the denunciation.

- Preservation of corporate assets in the best interests of the Company and its Shareholders.
- Relationships with customers and consumers.
- Principles the Company endeavors to abide by in its relationships with business partners.
- Commitment with respect to the environment and the communities.
- Policies providing all persons mentioned herein above with means of obtaining (i) effective redress in the event of violation of their rights, and (ii) access to relevant sufficient and reliable information on a timely and regular basis.
- Implementation and revision of the code of conduct.

APPENDIX 5 – DEFINITION OF INDEPENDENCE

Recourse to independent directors should be admitted if they all respect the conditions that are to be met for election among the Board: (i) nomination and dismissal by the general assembly, (ii) ownership of shares of the Company, (iii) limitations of sits on other Board, (iv) respect of the threshold of directors allowed to sit on the Board, (v) conditions related to compensation and remuneration, and (vi) liability of Board members.

Definition of independence: A director should be considered independent when he or she has no relationship of any kind whatsoever with the Company, its group or its management of either that is such as to affect his or her judgment.

To that extent, independence requires cumulative conditions. Hence, a director might be considered independent if he/she:

- Is not a member of the executive management or of the board of associated companies (subsidiaries etc.) and has not held any such appointment for the past year;
- Has no family ties with any of the executive directors which might interfere with the exercise of his/her independent judgment;
- Is not a member of the executive management or Board of one of the dominant Shareholders and has no business, financial or other relationship with the latter;
- Is not a supplier of goods or services of a nature which might interfere with the exercise of his/her independent judgment and nor is he/she a member of the firm of which the Company's adviser or consultant is part; and
- Has no other relationship with the company which, in the opinion of the Board, is of a nature which might interfere with the exercise of his/her judgment; no such influence is deemed to arise from the remuneration he/she receives or his/her restricted shareholding in the company.

Upon nomination, each director should make a written public and personal declaration stating that he/she is independent. That statement should be reviewed on an annual basis by the corporate governance and nomination committee, under the supervision of the Board.

APPENDIX 6 – SPECIALIZED COMMITTEES OF THE BOARD

Committees assisting the Board should be allocated an annual budget so as to enable them to properly discharge their duties. Budget should cover administrative expenses and exercise of duties.

Committees should have the exclusive authority, at the expense of the Company, to retain independent consulting, legal or other advisors that they deem appropriate in carrying out their functions.

The audit committee: the audit committee should be composed of independent non-executive directors. At least one member of the audit committee should possess expert knowledge in financial reporting, auditing and accounting, and all members should have backgrounds compatible with the duties of the committee.

The audit committee should comprise a minimum of 3 members. Upon appointment, the members of the committee should be informed of and trained on the Company's specific accounting, financial and operating features.

The audit committee should be specifically responsible for:

- providing oversight of the Company's internal and external auditor;
- ensuring they are qualified, independent and making recommendations to the Board with regards to the fees paid to the external auditor;
- ensuring that both internal and external auditors have all required information for proper discharge of their functions;
- reviewing and approving audit scope and frequency;
- receiving audit reports and ensuring that management is taking appropriate corrective action in a timely manner to address internal control weaknesses;
- non-compliance with policies, laws and regulations and other problems identified by the auditors;
- oversight of all complaints emanating from stakeholders pursuant to section 3.2 of the

present Guidelines;

- oversight of the internal control system implemented by the management;
- risk issues;
- providing oversight of related-party transactions; and
- anti-money laundering.

The committee should be able to drive the process of selecting the internal and external auditors, express its views on the auditing system and be informed of the work programs of the internal and external auditors. It should also express an opinion on the amount of fees requested for statutory audit work and submit the results of the selection process to the Board.

Audit committees should be able to interview internal and external auditors, financial officers as well as the head of accountings and treasury departments. The committee should review the scope of consolidation. The audit committee should be able to meet separately as well as periodically with the management.

As regards internal audit and risk control, the audit committee should examine material risks and off-balance sheet commitments, interview the head of internal audit, express its view of the organization of this department and be informed of its work program.

The audit committee, for the proper discharge of its functions, should discuss (i) the Company's annual, semi-annual and quarterly financial statements with the management and auditors, (ii) the Company's earnings, press releases, financial information and earning guidelines provided to rating agencies and analysts, (iii) policies with respect to risk assessment and risk management.

The regulatory and compliance committee: this committee should be composed of at least one independent director. It should be noted that the functions of the regulatory and compliance committee could be combined with the functions of the audit committee. The Company, in light of its activities and general structure, should assess whether or not dissociating these duties will better serve its interests.

The Chairman should set a regulatory and compliance committee competent for all issues involving compliance with all applicable laws and regulatory requirements emanating from a supervisory institution. The committee should report compliance with such rules to the Board with the aim of ensuring the Company meets its legal obligations and avoids incurring potential risks from failing to meet such obligations. This committee is charged, along with the help of the corporate governance and nomination committee, of establishing guidelines on the corporate conduct of directors and managers as well as safeguards and policies to ensure the Company and its agents refrain from all forms of corruption and unethical business practices.

The regulatory and compliance committee should have the power to conduct internal investigations into alleged misconduct within the Company or another company of the Group and has an obligation to report to the Board any such wrongdoing when it is uncovered.

The committee should produce a detailed annual report, which shall be submitted to the Board for its review and for inclusion in the Company's annual report.

The corporate governance and nomination committee: the corporate governance and nomination committee should be composed of a substantial majority of independent directors. International best practice recommends that the Chairman of the committee be a non executive.

This committee is of a major importance for the proper and transparent functioning of the Company. It should therefore be competent for the following actions:

- assist the Board in meeting its duties and responsibility to the Shareholders and stakeholders;
- make recommendations to the Board on corporate governance matters;
- identify individuals best qualified to serve as board members and review and recommend the election, reelection and dismissal of directors and managers⁽¹⁰⁾ ;

(10) In taking its decisions, the Committee should place a particular emphasis on the candidate's integrity, qualifications and professional skills, as well as the absence of conflict of interest.

- propose changes in the Board's size;
- review and recommend committee appointments;
- consult and make recommendations for agenda items of the Board and the annual meeting of the Shareholders;
- monitor the activities and performance of the Company on its relations with the public, Shareholders, stakeholders and governmental institutions;
- evaluate the performance and effectiveness of the Board and its committees as well as that of its individual members on an annual basis and report the results of such evaluation to the full Board; that evaluation should include integrity, wisdom judgment, skills, diverse perspectives and availability;
- implement corporate governance training and sessions for directors, managers and employees;
- propose the Board to adopt a comprehensive code of corporate governance or general charter, applicable to all employees and non employees, informing all protagonists acting on behalf of the Company of their rights and duties; and
- perform other related tasks as the Board shall, from time to time, determine.

The compensation committee: this committee, considering the specificity of its activities, should not include any corporate officers and should be composed of a majority of independent directors.

The compensation committee has a central role to play in making recommendations regarding: (i) the remuneration of managers and corporate officers, both regarding the fixed and variable portions, (ii) all compensation and benefits in kind received by managers and officers from the Company or other Group companies as well as performance-enhancing mechanisms, (iii) the definition of rules governing the setting of this remuneration, (iv) consistency of these rules with the annual performance evaluation of these managers and officers by the corporate governance and nomination committee, and (v) verification of the implementation of these rules on an annual basis.

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CORPORATE GOVERNANCE GUIDELINES FOR LISTED COMPANIES

The Corporate Governance Guidelines for Listed Companies (Guidelines) symbolize the multiple efforts of the Lebanese Transparency Association and its partners - whether local, regional or international – to promote the culture and practice of Corporate Governance (CG) in Lebanon and the MENA region. The Guidelines are inspired by various national and international sources of good governance, such as the Organization for Economic Cooperation and Development (OECD).

As Lebanon continues to evolve economically and financially, there is an urgent need for Listed companies to adopt high-quality business-governing standards. It is with this objective that the present Guidelines have been drafted - the Corporate Governance Guidelines for Listed Companies aim at providing such companies with reliable guidelines as they seek to introduce a sound system of CG which can inspire the trust of shareholders, investors and the general public in Lebanon and the MENA region.