

# Audit Committee Charter

## **First: Introduction**

The Audit Committee Charter (“the Charter”) has been formed in pursuance of the provisions of the Corporate Governance Regulations of the Kingdom of Saudi Arabia issued by the Board of the Capital Market Authority (CMA) by Decision No. (8-16-2017), dated 16/05/1438H corresponding to 13/02/2017, and based on the Companies Law issued by Royal Decree No. (M/3), dated 28/01/1437H. The Charter includes the regulations and procedures of the Audit Committee’s (“the Committee”) works; it also determines the responsibilities of the Committee, specifies the standards for selection and methods of nomination of its members and their membership terms and remuneration, and the mechanism for the temporary appointment of Committee members in the event of a vacancy.

The Charter was first issued as directed by decision of the General Assembly of the company’s shareholders held on 18/02/1421H corresponding to 22/05/2000, based on the proposal from the Board of Directors (“the Board”). It was amended by the General Assembly resolution dated 15/04/1431H corresponding to 31/03/2010, the General Assembly resolution dated 11/07/1437H corresponding to 18/04/2016, and the General Assembly resolution dated 12/05/1438H corresponding to 09/02/2017.

This Charter was amended as directed by the decision of the General Assembly of the company’s shareholders held on Sunday, 13/04/1439H corresponding to 31/12/2017, based on the proposal of the Board.

## **Second: Rules for Selecting Audit Committee Members**

1. Based on a resolution by the General Assembly of the company’s shareholders, an Audit Committee shall be formed of shareholders or others based on a proposal from the Board of Directors.
2. The members of the Committee shall have at least one independent member and shall not include a member of the Board of Executive Directors nor members of the company’s executive management.
3. The number of Committee members shall not be fewer than three and not greater than five and should include an expert in financial and accounting matters.
4. Those who work or have worked during the past two years in the executive or financial management of the company or with the auditor of the company may not be a member of the Committee.
5. The membership of the Committee shall be for three years, commencing with the beginning of the term of the Board and expiring at the end of the Board term. The Board is authorized to re-nominate the Committee members to the General Assembly and appoint them for a similar period or periods.

6. The chairman of the Board may not be a member of the Committee.
7. The Committee shall select a chairman from among its members.
8. The Committee may select a Secretary from among its members or others.
9. The chairman of the Committee or a representative from the Committee members shall be present at the General Assembly meetings in order to respond to the inquiries and requests raised by the shareholders.
10. If the Committee member's position becomes vacant during the membership period, the Board may appoint a temporary member to fill the vacant position, provided that he is experienced and competent to fill the vacant position for the remainder of the membership period of his predecessor. Such appointment shall be submitted to the ordinary General Assembly at its first meeting.
11. The company's Board shall notify the CMA of the Committee members' names and their membership capacity within five business days of the date of appointment, and any changes to the membership list shall be submitted to the CMA within five business days of the date of the changes.

### **Third: Committee Meetings**

1. The Committee will meet on a regular basis no less than four times per financial year. The Committee may convene as often as it is deemed necessary.
2. A meeting of the Committee shall be convened either by the chairman, at the request of two members of the Committee, at the request of the Internal Audit Department, or at the request of the auditor.
3. The Audit Committee will meet periodically with the company's auditor and internal auditor.
4. Committee meetings shall not be valid without the attendance of at least half of the Committee members. Committee members are not allowed to nominate another member to attend the meeting on their behalf.
5. The internal auditor and the auditor may request to meet with the Committee whenever the need arises.
6. The Committee meetings shall be documented, and the minutes thereof, including the discussions and deliberations, shall be prepared. Recommendations of the Committee and the results of any vote shall be documented and maintained in a special and organized register. The names of members in attendance and reservations expressed by them (if any) shall be indicated in the minutes. The minutes shall be signed by all the members in attendance.
7. Decisions made by the Committee shall be made by the majority of the members in attendance. Upon equal votes, the opinion in favor of that which the chairman of the Committee has voted shall prevail.

8. Except for the Committee secretary and members, members of the Board and members of executive management are not entitled to attend the Committee meetings unless the Committee requests to hear their opinion or to obtain their advice.
9. Should a member of the Committee be unable to be present personally for reasons of travel or for any other emergency cases, the member may participate in the meeting via modern communications media—whether visual or aural. In all cases, this shall be documented in the minutes of the meeting.
10. A member may delegate another member of the Committee on his behalf by a written authorization to be sent to the chairman and the secretary of the Committee. The member in attendance may not be delegated on behalf of more than one member to attend the same meeting.
11. The Committee shall submit a summary report to the Board at the Board's first subsequent meeting. The reports and recommendations shall be submitted to the Board whenever necessary.

#### **Fourth: Audit Committee Duties and Responsibilities**

The Committee shall be responsible for monitoring the company's business, verifying the authenticity of reports and financial statements, and examining the internal control system within the company. The Committee's tasks particularly include:

##### **A) Financial Statements**

1. Analyze quarterly and annual financial statements prior to presenting them to the Board and provide opinions and recommendations to ensure transparency, impartiality, and fairness of such statements.
2. Provide technical opinions, at the request of the Board, on whether the Board's report and the company's financial statements are fair, balanced, intelligible, and include information that allow shareholders and investors to evaluate the company's financial position or situation, performance, business model, and strategy.
3. Examine any significant or unusual issues in the financial statements and reports.
4. Investigate accurately any matters raised by the company's chief financial officer, or whoever acts on his behalf; the committing officer; or the auditor.
5. Audit accounting estimates that pertain to some substantive issues contained in the financial statements.
6. Inspect the adopted accounting policies and provision of views and recommendations regarding these policies.

## **B) Internal Audit**

1. Study and audit the company's internal and financial control systems and risk management.
2. Study the internal audit reports and follow up the execution of the procedures rectifying the observations outlined in the reports.
3. Control and monitor the performance and activities of the company's internal auditor and the Internal Audit Department (if any) to ensure the availability of the necessary resources and their effectiveness in performing the tasks and functions assigned to them. If the company does not have an internal auditor, the Committee shall submit to the Board its recommendations showing the need to appoint an internal auditor.
4. Provide the Board with a recommendation to appoint a director of the Internal Audit Department or to appoint an internal auditor and a proposal for the remuneration thereof or approval for the appointment of a professional accounting firm to perform internal audit work.

## **C) Auditor**

1. Recommend to the Board the appointment of external auditors, their termination, and their remuneration, taking into consideration their independence, scope of work, and contractual terms in case of appointment.
2. Verify the auditor's independence, objectivity, and fairness and ensure the effectiveness of the audit work, taking into consideration the related guidelines and standards.
3. Review the plan and tasks of the company's auditor, ensuring that the auditor does not carry out technical or administrative works that are beyond the scope of the audit works, and provide opinions in this regard.
4. Respond to the company's auditor's inquiries.
5. Study the auditor's reports and observations on the financial statements and follow up on actions that are being taken in that regard.

## **D) Ensuring Compliance**

1. Review the results of the regulators' reports and verify that the company has taken the necessary steps and procedures in this regard.
2. Ensure that the company complies with relevant rules, regulations, policies, and instructions.
3. Review the contracts and transactions proposed to be carried out by the company with the related parties and provide opinions in this regard to the Board.
4. Forward the issues that are deemed to require action to the Board and provide recommendations about the actions that should be taken.

#### **Fifth: Arrangement of Submitting Observations**

The Committee shall review the arrangements that allow the company's employees to confidentially submit their observations regarding any abuse of financial statements or other reports. The Committee shall ensure that these arrangements are applied through an independent investigation in proportion to the size of fault or abuse. It shall also adopt appropriate follow-up action.

#### **Sixth: Audit Committee Delegated Powers and Authorities**

- A. Prepare a written report that includes the Committee's views and opinions on the adequacy of the company's system of internal and financial controls and risk management. The report shall also include other works carried out by the Committee within the scope of its competence. The Board shall place enough copies of such report in the company's headquarters at least ten days before the opening of the General Assembly session in order to provide the shareholders with copies of the report. The report shall be presented during the General Assembly meeting.
- B. The Committee may seek the assistance of consultants and specialized experts, as it deems appropriate, from within or outside the company within the limits of its powers, provided that this shall be noted in the Committee's minutes of the meeting, including the name of the expert and his relationship with the company or executive management.
- C. In order for the Committee to carry out its responsibilities, it is entitled to:
  - 1) Have the right to access the company's records and documents.
  - 2) Request any clarification from the Board or executive management.
  - 3) Request that the Board invite the company's General Assembly to convene if its business was hindered by the Board or if the company sustained material losses or damages.

#### **Seventh: Conflict between the Audit Committee and the Board of Directors**

If a conflict arises between the recommendations of the Committee and the Board resolutions, or if the Board refuses to put the Committee's recommendations into action regarding appointing or dismissing the company's external auditor or determining its remuneration, assessing its performance, or appointing the internal auditor, then the Board's report shall include the Committee's recommendations and justifications and the reasons for not following such recommendations.



### **Eighth: Remuneration and Allowances**

1. The remuneration of the Committee members shall be pursuant to a resolution by the General Assembly of the company's shareholders, which is a lump sum for each member provided that it shall be proportionate to the members' performance and their attendance to the Committee meetings.
2. Each member shall receive an attendance allowance for the sessions he attends personally, and such allowance shall not in any case exceed the stipulated amount for a member of the Board.
3. The company shall cover all travel and housing expenses and any other expenses to enable the member to attend the meetings and participate in the Committee activities that are relevant to its functions.
4. The Board's annual report presented to the General Assembly will disclose the remunerations and other payments made to the Committee members.
5. The remuneration and allowances shall be paid after the approval of the annual audited consolidated financial statements.

### **Ninth: General Provisions**

1. The Committee submits non-obligatory recommendations to the Board.
2. The company may not give a financial loan of any kind to the Committee members or guarantee any loan held by any of the members with a third party.
3. A committee member shall have the same commitments as a member of the Board, such as not disclosing the secrets of the company.
4. Members of the Committee shall inform the Board of updates that affect their independence or cause a conflict of interests relating to the decisions taken by the Committee. The performance of the Committee shall always be subject to monitoring and supervision by the Board.

### **Tenth: Final Provisions**

1. This Charter shall be implemented and complied with by the company starting from the date it is approved by the General Assembly of the company's shareholders.
2. This Charter shall be published on the company's website.
3. This Charter shall be amended as and when required by a proposal of the Board under a resolution issued by the General Assembly of the company's shareholders.