

THE BAHRAIN PETROLEUM COMPANY B.S.C. (CLOSED)

Summary of Board-approved Corporate Governance Framework & Guidelines

1. CORPORATE GOVERNANCE

Bapco’s Board of Directors approved the Company’s Corporate Governance Framework & Guidelines at its meeting No.106 held on 22 July 2020. Bapco’s governance guidelines comply with the Legislative Decree No. (42) of 1999 related to its establishment, Articles of Association, the Decree No. (63) of 2005 related to the establishment of the National Oil & Gas Authority (“NOGA”) and Law No. (10) of 2006 with respect to specifying the functions and powers of NOGA. Bapco adopts the Corporate Governance Code of the Kingdom of Bahrain, 2018 (the “Corporate Governance Code”) which provides guidance to companies on the best ways to manage, lead, organise and monitor their businesses through a series of transparent, clearly defined policies, processes and procedures.

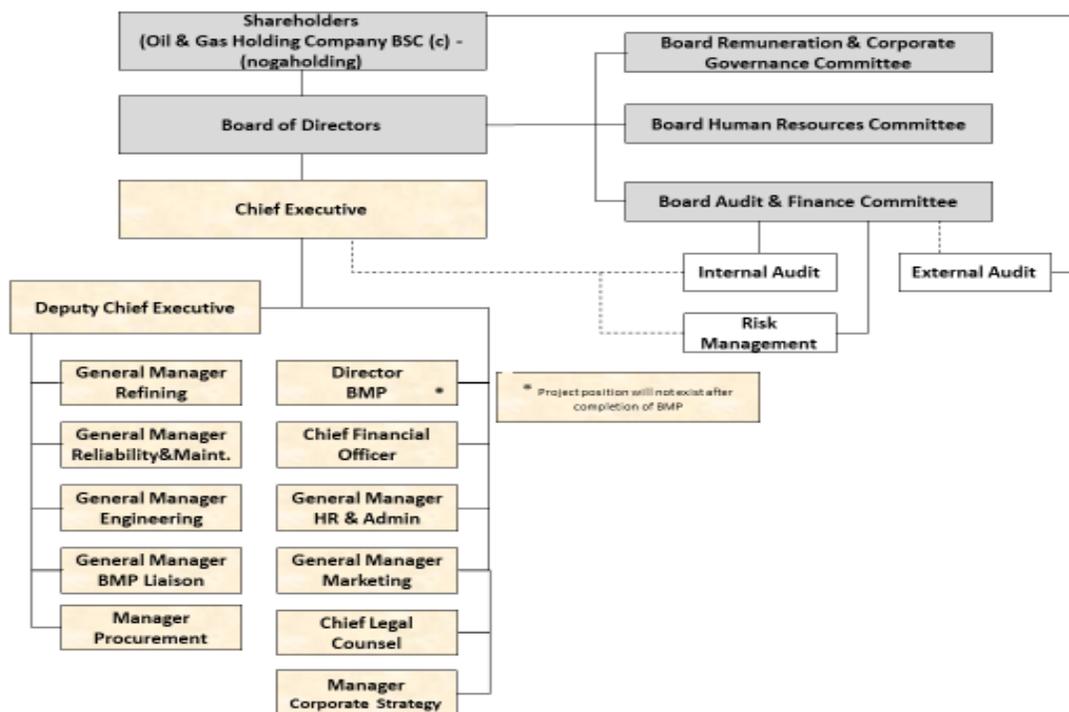
The Board is committed to the highest standards of Corporate Governance, which it believes are critical to maintaining stakeholder and shareholder confidence and to provide a system that governs the Company’s business in order to create an efficient institution which contributes to building a strong, transparent and competitive national economy.

2. GOVERNANCE FRAMEWORK AND GUIDELINES

The governance framework consists of three core elements: Organization Structure, Internal Control Framework and Independent Assurance.

2.1 Bapco’s Organizational Structure

Bapco’s Organizational Structure is a key element of its governance framework designed to best suits its business that along with the underpinning mechanisms that create a robust and effective environment in satisfying the corporate governance requirements.



2.2 Role of Nogaholding

- i. The Oil and Gas Holding Company (“nogaholding”), the investment and development arm of the NOGA and plays a fundamental role in the execution of the strategic plans of the authority and stewardship of the Bahrain Government’s investment in several companies in the oil, gas and petrochemical sector in Bahrain including BAPCO. It is BAPCO’s sole shareholder.
- ii. nogaholding aims to create shareholder value by the successful management of a portfolio of oil, gas, and petrochemical assets. Consistent with its objectives, nogaholding’s specific responsibilities towards BAPCO include:
 - (a) Governance and the promotion of operational excellence and best practice.
 - (b) Development of staff.
 - (c) Provision of technical services.
 - (d) Appointment of external auditors.
 - (e) Establishment of the remuneration of external auditors and the Board.
 - (f) Review and approval of audited financial statements.
 - (g) Coordination with operating companies to develop the capacity of the refinery.
 - (h) Supervision of BAPCO’s major capital investments.
 - (i) Monitoring BAPCO’s technical and financial performance.

2.3 Role of NOGA

Some of its specific responsibilities as regards Bapco include:

- (a) Maximize added value through coordination with operating companies to develop the capacity of the Refinery.
- (b) Optimize consumption and ensure fair and cost-effective distribution of natural resources.
- (c) Apply oil and gas-related laws and legislation.
- (d) Coordinate the pricing policy of petroleum products locally to eliminate differentials in the economic costs for the various consumer sectors.
- (e) Participate in the introduction and implementation of a safety and environmental protection policy within the oil sector and give special attention to the environmental aspects to eliminate pollutants and toxic gases.
- (f) Review regular Reports and final financial statements of BAPCO and approve their budgets and major products.

- (g) Confirm appointments of Board members appointed in consultation with higher authorities (by Ministerial Resolution).

2.4 Board of Directors

Bapco is governed by an effective, respectful and knowledgeable Board. The Board sets the Company's policy, direction and overall objectives. The Board is responsible to the shareholders for creating and delivering sustainable shareholder value by managing the Company's businesses within the overall governance framework. The Board establishes Bapco's strategy and ensures that an appropriate level of financial and human resources is made available to management in the delivery of the agreed strategy. The Board is governed by certain rules and procedures to ensure its effectiveness and independence.

The Company's Corporate Governance Framework & Guidelines clearly outlines the guidelines for the Directors' appointments and resignation in addition to the requirements of the Directors' independence.

2.4.1 Roles reserved to the Board:

In addition to the Board demonstrating ethical leadership and promoting behaviours consistent with the Company's vision, mission, values and culture, it is also responsible for appointing the Company's executives and prescribing their authorities, roles and responsibilities and determining the remuneration for executives and Directors (subject to the approval of the Shareholder's General Assembly and taking into consideration the applicable provisions of the law), determining and generally supervising the regulation and systems of the Company's internal controls, it is also responsible for the following:

- (a) Establish the company's strategic vision, mission, purpose and values and determining and periodically reviewing the Company's goals, policies, strategies, key objectives and the overall governance framework.
- (b) Assess and evaluate business opportunities, threats and risks tolerance/appetite relating to the Company.
- (c) Approve the Company's financial statements and present them to the General Assembly.
- (d) Approve and monitor capital projects and investments for the Company including acquisitions and disposals of assets.
- (e) Set and monitor the Company's long-term finance plan and annual capital, and revenue budget and determine the Company's optimal capital structure, strategies and financial objectives.
- (f) Approve any significant change in accounting policies or practices.
- (g) Establish Board committees, approve their terms of reference, reviewing their activities and, where appropriate, ratifying their decisions.
- (h) Appointing executives whose authorities shall include management and smooth operation of the Company and determining the remuneration for senior executives and Directors subject to approval by the Shareholder's General Assembly and in accordance with applicable laws.

- (i) Adopt internal regulations to determine the Board duties and responsibilities including the responsibilities and obligations of the Directors and adopt a mechanism related to Board activities to regulate transactions with third parties to minimise conflicts of interest.
- (j) The Board sets the tone and influences the culture of risk management within the Company and satisfy itself that all fundamental risks are being actively managed and controlled and appropriate controls are in place.
- (k) The Board shall conduct an evaluation of its performance and the performance of all committees and Directors at least once a year.

2.4.2 Board Composition

The Board is appointed by Ministerial Resolution and approved by nogaholding and is made up of at least five (5) members, including the Chairman providing a wealth of experience and skills from a number of industry and government backgrounds. Members are appointed for a period of three years, renewable for subsequent periods. The Board is composed of individuals who have the competence and independence to demonstrate judiciousness, experience, objectivity and impartiality in looking into the Company's affairs and to ensure complete independence of the executive management and the shareholder. The Chairman is responsible for the leadership of the Board and the proper conduct of its business.

2.4.3 Board Meetings

The quorum for each Board meeting is the majority of the Board including the Chairman or his deputy (if so appointed). A minimum of four regular meetings per annum are to be held and additional meetings can be held when necessary.

The Board may hold its meetings or committee meetings by telephone or visual communications or accept any Director's remote participation in the deliberation of its meetings, subject to the provisions of applicable laws.

The Board shall take its decisions and recommendations by a majority of the Directors present, In the event of a tie, the Chairman shall have the casting vote.

2.4.4 Relationship with Shareholder

The Board is accountable to nogaholding for the performance and activities of the Company and has frequent dialogue with the shareholder to understand its views on several matters.

2.4.5 Board Committees

There are three committees, each with its own charter and comprising three members appointed by the Board and one of them serves as the Committee Chairman.

2.4.5.1 The **Board Audit & Finance Committee** is responsible for (among others):

- (a) Overseeing the accounting and financial reporting processes of Bapco.
- (b) Assuring that the Company's financial statements are properly and effectively audited by qualified public accounting firms who are independent.
- (c) Reviewing the effectiveness and the integrity of Bapco's internal financial control and risk management system.

- (d) Assisting the Board in fulfilling its oversight responsibility with respect to the Company's maintenance of an effective internal audit function.
- (e) Assessing the Company's process in line with the International Accounting Standards for monitoring compliance with laws and regulations affecting financial reporting and compliance with significant applicable legal, ethical and regulatory requirements.
- (f) Providing objective assurance to the Board on the effectiveness of the Company's enterprise risk management activities to ensure that key business risks are being managed appropriately and that the system of internal control is operating effectively.

2.4.5.2 The **Board Human Resources Committee** is responsible for (among others):

- (a) Ensuring that all Human Resources policies and procedures are designed, maintained, updated and implemented across the Company in a fair and open manner ensuring that the short-term and long-term interests of the business are achieved.
- (b) Ensuring that the manpower planning and recruitment process is fair and transparent and handled in an effective and efficient manner.
- (c) Ensuring that recommendations for the remuneration of senior executives to the Board are within the Human Resources and compensation policies and guidelines approved by the Board and that any contractual terms on termination and payments to the senior executives are fair and also in accordance with the Human Resources and compensation policies and guidelines approved by the Board.
- (d) Seeking external and independent opinions to make decisions on complex matters and not endorsing any proposals or agenda items when outside of its authority and requesting further explanations when any matter is not clear.

2.4.5.3 The **Board Remuneration and Corporate Governance Committee** is responsible for (among others):

- (a) Ensuring that Bapco's overall remuneration policy is consistent with the achievement of strategic objectives and values and for making recommendations to the Board in respect of the remuneration policy for the Directors and senior executives.
- (b) Ensuring that the Company's corporate governance policies and practices are up to date and recommending any changes to the Board.
- (c) Monitoring the implementation of the Corporate Governance Code and reviewing all related documentation and reviewing Bapco's business practices.
- (d) Reviewing the adequacy of the charters of the Board Committees and recommending changes to the Board as necessary.
- (e) Conducting the annual evaluation of the performance of the Board, the Directors, the Committees and their members.

2.4.6 Role of the Chairman of the Board

The Chairman is responsible for leading the Board and focusing it on strategic matters, overseeing the Company's business and setting high governance standards. His responsibility also includes providing interface between NOGA, nogaholding, the Board and the executive management, as well as supporting executive management on issues related to Bapco's agency business on behalf of the Government and high-level organizational issues.

2.4.7 Role of the Chief Executive

The Chief Executive is appointed by Ministerial Resolution and approved by the Board and is responsible for leadership of the business and managing it within the authorities delegated by the Board.

2.4.8 Role of the Board Secretary

The Board Secretary is appointed and removed by a resolution from the Board. The basic responsibilities of the Board Secretary include informing members of meetings and other important dates, taking minutes at meetings, and maintaining documentation associated with the Board.

2.4.9 Role of the Corporate Governance Officer ("CGO")

Bapco appoints one of its qualified senior employees as CGO to carry out the tasks of verifying the Company's compliance with corporate governance rules, laws, regulations and resolutions issued to implement them.

3. **INTERNAL CONTROL FRAMEWORK**

The second key element of Bapco's governance framework is the internal control framework and risk management, which describes the way in which the Company functions, and includes the Company's business principles, policies, standards, guidelines and processes. Bapco's internal control system adopts COSO (Committee of Sponsoring Organisation) framework that is established to create business value and minimize risk and to address the following objectives:

- To ensure that management, transactions and personal conduct comply with guidelines relating to corporate business conduct, as set out by the Bapco bodies responsible for corporate governance.
- To ensure that the accounting, financial and management information provided to the bodies responsible for corporate governance in the Company fairly reflects the performance and the financial position of Bapco.
- To ensure the efficient implementation of the Company's strategy and compliance with laws and regulations.
- To manage and control all risks arising from the activities of the Company, in particular accounting, financial, operational, strategic and compliance risks.

Risk assessment and evaluation are incorporated into key business processes including strategy and business planning, investment appraisal, performance management and HSE management processes. The risk management process is reviewed by the Board Audit and Finance Committee on behalf of the Board.

4. **INDEPENDENT ASSURANCE**

The third element of Bapco's governance framework is independent assurance, which is provided primarily by Internal Audit, independent External Auditors and by other external auditors/advisers.

Bapco has the following independent assurance functions:

- Internal Audit providing assurance to the Board, the Audit & Finance Committee and management that effective and efficient internal control and risk management arrangements are in place to identify and manage business risks across the Company.
- The Independent External Auditors' reporting to the shareholder and their audit opinion on the accounts are set out in the annual financial statements.
- The Legal Department endeavouring to ensure that Bapco does not breach applicable laws and regulations.