GLASS LEWIS

2019

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

MIDDLE EAST AND NORTH AFRICA (MENA)

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Guidelines Introduction

While corporate governance practices in the Middle East/North Africa (hereinafter "MENA") region vary by country, many principles and regulations are common to most countries in this region. Therefore, we have consolidated our proxy voting guidelines for companies located in the MENA region (with the exception of Israel and Turkey which retain separate voting guidelines) into a single pan-MENA policy.

These guidelines are intended to summarise the underlying principles and definitions used by Glass Lewis and the regulatory authorities within the MENA region when applying market-specific policies across this region. Throughout these guidelines, as applicable, we will identify policies, principles and definitions that may vary by market. The following is a list of the main countries for which these guidelines should apply, together with the relevant corporate governance frameworks for the major markets in this region.

	Corporate Governance Code	Compliance	Relevant Corporate Law(s)
Bahrain	Corporate Governance Code of the Kingdom of Bahrain (2010)	Comply or Explain	Commercial Companies Law No. 21 of 2001
Egypt	Code of Corporate Governance for Listed Companies (2016)	Comply or Explain	Law No. 159/1998
Jordan	Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange (2012)	Comply or Explain	Companies Law No. 22 of 1997
Kuwait	Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013)	Comply or Explain	Law No. 1 of 2016 on the Promulgation of the Companies Law
Lebanon	Corporate Governance Guidelines for Listed Companies (2010)	Voluntary	Lebanese Commercial Code
Morocco	Code of Good Corporate Governance Practices (2008)	Voluntary	Code of Commerce, Law No. 15-95
Oman	Code of Corporate Governance for Public Listed Companies (2015)	Mandatory	Commercial Companies Law No. 4 of 1974
Qatar	Corporate Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority (2009)	Comply or Explain	Commercial Companies Law No. 11 of 2015
Saudi Arabia	Corporate Governance Regulations of Capital Markets Authority (2017)	Mandatory	Saudi Arabian Companies Law (2015)
United Arab Emirates	Ministerial Resolution No. (518) of 2009 Concerning Governance Rules and Corporate Discipline Standards	Mandatory	Federal Law No. 2 of 2015 Concerning Commercial Companies

SUMMARY OF CHANGES FOR THE 2019 MENA POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we have updated our policy guidelines to include regulations and references to the Saudi Arabian corporate governance code.

A Board of Directors that Serves the Interests of Shareholders

A variety of board structures are available to companies in the MENA region. The prevailing model is the one-tiered board, comprising both executive and non-executive directors, while some companies may instead apply a two-tiered board model, with a board comprising non-executive members responsible for oversight of a separate executive board. In some countries, companies may also establish a Sharia and Fatwa supervisory board, charged with ensuring that the company is adhering to the principles of Islamic law regarding commercial behavior.

Shareholders may typically elect only one oversight body, which is responsible for representing shareholders' interests. Throughout these guidelines, "board" will refer to the oversight body elected by and primarily accountable to shareholders, and "director" will refer to any member of the board including executives serving as directors, unless otherwise stated.

ELECTION OF DIRECTORS

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favour of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have a record of positive performance, and have members with a breadth and depth of experience.

INDEPENDENCE

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a record indicative of making objective decisions. Likewise, when assessing the independence of directors, we will also examine whether a director's record on multiple boards indicates a lack of objective decision-making. Ultimately, the determination of whether a director is independent or not must take into consideration compliance with the applicable independence criteria as well as judgments made while serving on the board.

We examine each director nominee's relationships with the company, the company's executives and other directors to determine if there are personal, familial or financial relationships (not including director compensation) that may influence the director's independent decision-making. We believe that such relationships make it difficult for a director to put shareholders' interests above personal or related party interests.

Thus, we typically put directors into the following categories based on an examination of the type of relationship they have with the company:

Independent Director — An independent director has no material financial,[1] familial[2] or other current relationships with the company,[3] its executives, or other board members, except for board service and standard fees paid for that service.

Affiliated Director — An affiliated director has a material financial, familial or other relationship with the company, its independent auditor or its executives, but is not an employee of the company.[4] This may include directors whose employers have a material relationship with the company or its subsidiaries or major shareholders. Glass Lewis applies a three-year look back period to all relationships with directors who have an affiliation with the company other than former employment, for which we apply a five-year look back.[5] In addition, we will consider directors affiliated if they:

1. Have been employed by the company within the past five years;

2. Own or control 10% or more of a company's share capital or voting rights or are employed by or have a material relationship with a significant shareholder[6]

3. Have — or have had within the last three years — a material relationship with the company, either directly or as a partner, shareholder, director or senior employee of an entity that has such a relationship with the company;

4. Have close family ties with any of the company's advisors, directors or senior employees;

5. Hold cross directorships or have significant links with other directors through his/her involvement in other companies or entities; or

6. Have served on the board for more than three terms, in line with local best practice.[7]

Inside Director — An inside director simultaneously serves as a director and as an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company.

1 "Material" as used herein means a relationship in which the value exceeds: (i) $50,000, or the equivalent (or 50% of the total compensation paid to a board member, or where no amount is disclosed) for board members who personally receive compensation for a professional or other service they have agreed to perform for the company, outside of their service as board members. This limit would also apply to cases in which a consulting firm that is owned by or appears to be owned by a board member receives fees directly. We note that in Bahrain, the threshold for a material relationship is lower (BD 31,000); (ii) $120,000, or where no amount is disclosed, for those board members employed by a professional services firm such as a law firm, investment bank or large consulting firm where the firm is paid for services but the individual is not directly compensated. This limit would also apply to charitable contributions to schools where a board member is a professor, or charities where a board member serves on the board or is an executive, or any other commercial dealings between the company and the director or the director's firm; (iii) 1% of the company's consolidated gross revenue for other business relationships (e.g., where the director is an executive officer of a company that provides services or products to or receives services or products from the company); (iv) 10% of shareholders' equity and 5% of total assets for financing transactions; or (v) the total annual fees paid to a director for a personal loan not granted on normal market terms, or where no information regarding the terms of a loan have been provided.

2 Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws, and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.

3 A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

4 If a company classifies a non-executive director as non-independent, Glass Lewis will classify that director as an affiliate, unless there is a more suitable classification (i.e., shareholder representative, employee representative).

5 The look back periods suggested by the corporate governance codes of MENA countries range from two (2) to three (3) years. In our view, however, a five-year standard is more appropriate because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five (5) years. Glass Lewis does not apply the five-year look back period to directors who have previously served as executives of the company on an interim basis for less than one (1) year.)

6 We treat 10% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 10% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, potential for materially increasing or decreasing their holdings in response to company performance, personal tax issues, etc. In some markets, including Kuwait, Morocco and Saudi Arabia, we will apply a 5% ownership threshold for classification purposes in line with market standards. Moreover, we may consider significant shareholders or representatives of significant shareholders owning or controlling less than 10% of a company's share capital to be affiliated when there is evidence of the shareholder having a significant influence on the board or engaging in business transactions with the company.

7 In Egypt, the Code considers a director non-independent after serving on the board for more than six years, while in Qatar, a director is considered no longer independent after nine years (Article 2, Code of Corporate Governance for Listed Companies (2016) (Egypt); Article 20 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia); Article 1, Corporate Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority (2009) (Qatar).

Shareholder Representative — Most MENA countries do not have specific regulations with respect to the appointment of shareholder representatives. However, in **Oman**, shareholders who own 10% or more of a company's share capital can appoint themselves to the board without an election.[8] In **Bahrain**, shareholders who own 10% or more of a company's share capital can appoint representatives to the board in proportion to their percentage of ownership. However, such shareholders will lose their voting rights with respect to those shares that coincide with their representation on the board.[9] In **Lebanon**, shareholders who own 10% or more may appoint a member to the board, provided they nominate several persons for such a position.[10]

VOTING RECOMMENDATIONS ON THE BASIS OF BOARD INDEPENDENCE

In line with best practice recommendations in several countries in the MENA region,[11] Glass Lewis believes a board will be most effective in protecting shareholders' interests when at least a majority of the directors are non-executive members. We also believe that boards should be comprised of at least two independent directors.[12]

In **Egypt**, **Jordan**, **Kuwait**, **Lebanon, Qatar**, **Saudi Arabia**[13] and **United Arab Emirates**, we believe a board will be most effective when at least a majority of the directors are non-executives and at least one-third of them are independent.[14] In **Oman**, all members should be non-executive with at least one-third of them being independent.[15] In **Bahrain**, we believe a board consisting of a majority of non-executive directors and at least three independent directors is most appropriate.[16]

Where a board's composition does not meet local best practice standards, we typically recommend voting against some of the inside and/ or affiliated directors in order to satisfy the relevant threshold. However, we generally accept the presence of representatives of significant shareholders in proportion to their equity or voting stake in a company. In cases where companies elect their directors as a slate and not individually, we will recommend voting against the entire slate if the composition of the board does not meet our recommendation as to the number of non-executive and independent directors.

VOTING RECOMMENDATIONS ON THE BASIS OF COMMITTEE INDEPENDENCE[17]

We believe that only non-executive board members should serve on a company's audit and compensation committees. Further, we believe these committees should be sufficiently independent from the company and its significant shareholders, in line with best practice for each market.

We believe the nominating committee should be sufficiently independent of company management and other related parties. We accept the presence of representatives of significant shareholders on this committee in proportion to their equity or voting stake in the company.

8 Article 97 of the Commercial Companies Law No. 4/1974.

9 Article 175 of the Commercial Companies Law of 2001.

10 Appendix 1 to the Corporate Governance Guidelines for Listed Companies.

11 Article 3.4 of the Guide to Corporate Governance Principles in Egypt; Article 10(b) of the Corporate Governance Guidelines for Listed Companies (Lebanon); Article 3.1 of the Code of Corporate Governance for Public Listed Companies (Oman); Article 9.2 of the Corporate Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority.

12 We note that some MENA markets offer limited or no statutory or regulatory guidance on independence thresholds. In those instances, we believe the board should be composed of, at minimum, two independent directors. We use higher independence requirements for markets that have higher independence thresholds.

13 Article 16 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia).

14 Chapter Two, Article 1 of the Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange (Jordan); Principle 1/1 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait); Article 3 of the Code of Corporate Governance for Public Listed Companies (Oman); Article 9.2 of the Corporate Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority (Qatar); Article 10 of the Corporate Governance Guidelines for Listed Companies (Lebanon); Article 3.2 of the Ministerial Resolution no. 518 of 2009 Concerning Governance Rules and Corporate Discipline Standards (U.A.E.).

15 Principle 2 of the Code of Corporate Governance for Public Listed Companies (Oman).

16 Article 1.3 of the Corporate Governance Code of the Kingdom of Bahrain.

17 Several MENA markets do not require public companies to establish compensation and/or nominating committees.

In **Bahrain** and **Oman**, the audit committee should comprise of a majority of independent members, including an independent chair.[18] Further, the compensation and nominating committees should be composed exclusively of non-executive members, of whom the majority is independent, including an independent chair.[19]

In **Egypt**, companies should establish an audit committee and a risk committee, or a joint audit and risk committee, comprising of at least three non-executive members.[20]

The Corporate Governance Code of **Jordan** recommends companies establish an audit, a compensation and nominating committee, all of which should be composed of at least three non-executive members, two of whom must be independent including chair.[21] In **Lebanon**, companies should have an audit committee, a compensation committee, and a joint corporate governance and nominating committee.[22] While the audit committee should be composed exclusively of non-executive, independent directors, the other committees may be comprised of a majority of independent members.[23]

In **Kuwait**, companies should establish audit, nominating, compensation, governance and risk management committees. All committees should include at least three members with majority non-executive, of whom one is independent, and be chaired by one of the non-executive members. The chair of the board of directors should chair the governance committee, but is prohibited from being a member of any other committee.[24]

In **Qatar**, the nominating committee should be exclusively independent while the compensation committee should comprise of non-executive members, the majority of whom are independent. The audit committee should be majority independent, however, this threshold may be lower provided that the committee chair is independent.[25]

In **Saudi Arabia**, the audit, remuneration and nomination committees should be composed exclusively of non-executive members, of whom at least one is independent, with an independent chair for the audit committee.[26] In addition, the board should establish a risk committee comprising a majority of non-executive members.[27]

CONTROL-ENHANCING MECHANISMS

Where a group of shareholders, acting in concert, have entered into an agreement to control a company and its board or cooperate on significant strategic issues, we will consider the shareholder group a single entity for the purposes of identifying the company's shareholder structure and recommended thresholds for independence.

CONTROLLED COMPANIES

We believe controlled companies warrant certain exceptions to our independence standards. The board's function is to protect shareholder interests; however, when an individual, entity (or group of shareholders party to a formal agreement) owns more than 50% of the voting shares, the interests of the majority of shareholders are the interests of that entity or individual. As stated above, we generally accept the presence of representatives of significant shareholders on the board in proportion to their equity or voting stake in a company.

18 Appendix B to the Corporate Governance Code of the Kingdom of Bahrain; Annex 3 to the Code of Corporate Governance for Public Listed Companies (Oman).

19 Articles 10 and 11 of the Code of Corporate Governance for Public Listed Companies (Oman). Appendices C and D to the Corporate Governance Code of the Kingdom of Bahrain.

20 Article 6 of the Guide to Corporate Governance Principles in Egypt.

21 Section Two, Article 1 of the Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange.

22 Article 12(d) of the Corporate Governance Guidelines for Listed Companies.

23 Appendix 6 to the Corporate Governance Guidelines for Listed Companies.

24 Principles 1/3 through of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait).

25 Articles 15, 16 and 17 of the Corporate Governance Code for Companies Listed in Markets regulated by the Qatar Financial Markets Authority.

26 Articles 54, 60 and 64 of The Corporate Governance Regulations of Capital Markets Authority.

27 Article 70 of The Corporate Governance Regulations of Capital Markets Authority.

Similarly, we accept the proportional representation of significant shareholders on the nominating committee when there is a controlling shareholder. However, we nevertheless believe that audit and compensation committees should remain sufficiently independent in line with local best practice. Regardless of a company's controlled status, we believe the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company's financial statements and that incentive programs are fair and appropriate.

OTHER CONSIDERATIONS FOR INDIVIDUAL DIRECTORS

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals as directors and executives of the company and of other companies where they have served. We also look at a director's experience, analyse possible conflicts of interest and consider how directors voted while on the board.

PERFORMANCE

We believe shareholders should avoid electing directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

- A director who fails to attend a minimum of 75% of applicable board meetings and committee meetings.[28]
- A director who is also the CEO of a company where a serious and material restatement has occurred after the CEO had previously certified the pre-restatement financial statements.
- Some or all board members in the event a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

EXPERIENCE

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred appearing at companies that follow these same patterns. Glass Lewis has a proprietary database that tracks the performance of directors across companies worldwide.

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, overcompensation, audit- or accounting-related issues, and/or other indicators of mismanagement or actions against the interests of shareholders.[29] Likewise, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the subject matter for which the committee is responsible.

EXTERNAL COMMITMENTS

We believe that directors should have the necessary time to fulfil their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. In addition, recent research indicates that the time commitment associated with being a director has been on a significant upward trend in the past decade. As a result, we typically recommend shareholders vote against a director who serves as an executive officer of any public company while serving on more than

28 Attendance information is rarely disclosed in MENA markets. We will apply this threshold when attendance information is available. Where a director has served for less than one full year, we will not typically vote against the director for failure to attend 75% of meetings. Rather, we will note the failure with a recommendation to track this issue going forward. We will also refrain from voting against directors when the proxy discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

29 We typically apply a three-year look-back to such issues and research to see whether the responsible directors have been up for election since the time of the failure.

two public company boards and any other director who serves on more than five public company boards, although this varies in accordance with market best practice.[30] We count board chair positions as two board seats given the increased time commitment. Further, directors should not chair the boards of more than four public companies in **Lebanon** and two public companies in **Qatar** and **United Arab Emirates**.[31]

When determining whether a director's service on an excessive number of boards may limit the ability of the director to devote sufficient time to board duties, we may consider relevant factors such as the size and location of the other companies where the director serves on the board, whether the director serves as an executive or non-executive director of any large privately-held companies, and the director's attendance record at all companies. Further, because we believe that executives will presumably devote their attention to executive duties, we may not recommend that shareholders vote against overcommitted directors at the companies where they serve an executive function. Similarly, we expect a chair of any public company to reduce his or her external commitments appropriately though we may not recommend that shareholders vote against overcommitted directors at companies where they serve as chair.

We may also refrain from recommending against certain directors if the company provides sufficient rationale for their continued board service. The rationale should allow shareholders to evaluate the scope of the directors' other commitments as well as their contributions to the board, including specialized knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors. We will also generally refrain from recommending to vote against a director who serves on an excessive number of boards within a consolidated group of companies or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company.

CONFLICTS OF INTEREST

In addition to the three key characteristics — independence, performance and experience — that we use to evaluate individual board members, we consider conflict of interest issues in making voting recommendations.

We believe that a board should be wholly free of people who have an identifiable and substantial conflict of interest, regardless of the overall presence of independent directors on the board. Accordingly, we recommend that shareholders vote against the following:

- Directors who provide, or whose immediate family members provide, material professional services to the company. These services may include legal, business,[32] consulting or financial services. We question the need for the company to have consulting relationships with its directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors. We will also hold the relevant senior director with oversight of related party transactions (whether a board committee, ad hoc committee, or the board as a whole, depending on the board's internal procedures) accountable for particularly egregious transactions concluded between the company and an executive director, which may pose a potential risk to shareholders' interest.

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30 In Qatar, we consider membership on the boards of more than three public companies as excessive (Article 98 of the Commercial Companies Code No. 11 of 2015). Listed companies belonging to the same group are counted as separate entities. Article 154 of the Lebanese Commercial Code (Lebanon) and Article 149.1 of Federal Law no. 5 of 2015 Concerning Commercial Companies (U.A.E.) deem membership on the boards of more than five public companies as excessive. The Lebanese Commercial Code further requires any director who is aged 70 or older to not serve on the boards of more than two (2) public companies.

31 Article 154 of the Lebanese Commercial Code (Lebanon); Article 98 of the Commercial Companies Code No. 11 of 2015 (Qatar); Article 149.1 of Federal Law no. 5 of 2015 Concerning Commercial Companies (U.A.E.). In United Arab Emirates, a director may not serve as the managing director of more than one company located in U.A.E.

32 While we generally recommend voting against directors whose businesses provide material business services to a company, we may not consider strategic business relationships, such as joint ventures or sales and marketing agreements, to be sufficiently compromising to a director's independence to merit voting against the individual. Additionally, we will generally not recommend voting against directors representing core shareholders who provide material services to a company that fall under the normal course of business. Instead, we will consider the nature of the relationship and the overall independence of the board when making voting recommendations on this basis.

- Directors who engage in, or whose immediate family members engage in airplane, real estate or similar deals, including perquisite-type grants from the company.

- Directors who have interlocking directorships. We believe that CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[33]

BOARD STRUCTURE AND COMPOSITION

In addition to the independence of directors, other aspects of the structure and composition of a board may affect the board's ability to protect and enhance shareholder value.

SEPARATION OF THE ROLES OF BOARD CHAIR AND CEO

Glass lewis believes that separating the roles of corporate officer and board chair creates a better governance structure than a combined executive/chair position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals the board set. This is needlessly complicated when a CEO sits on or chairs the board, since a CEO presumably will have a significant influence over the board.

It can become difficult for a board to fulfill its role of overseer and policy setter when a CEO/chair controls the agenda and the boardroom discussion. Such control can allow a CEO to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the business operation, and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out the CEO's vision for accomplishing the board's objectives. Failure to achieve the board's objectives should lead the board to replace that CEO with someone in whom the board has confidence.

Likewise, an independent chair can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face. Such oversight on behalf of shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders. When the company has not separated the two positions, we generally believe the presence of an independent lead director or vice chair can serve to mitigate any potential conflicts of interest that may affect the performance of the board.

In **Egypt,**[34] **Kuwait,**[35] **Oman**,[36] **Qatar**,[37] **Saudi Arabia**[38] and **United Arab Emirates**,[39] public companies are legally obligated to separate the roles of managing director/CEO and board chair. For companies listed in these markets, we will recommend shareholders vote against CEOs or managing directors who chair the board in violation of legal requirements.

For other markets, while the separation of the two roles is recommended in several corporate governance codes,[40] we generally do not recommend that shareholders vote against CEOs who serve on or chair the board.[41] However, we may recommend voting against the nominating committee chair when the board chair

33 There is no look-back period for this situation. This only applies to public companies and we only footnote it for the non-insider.

34 Article 2, Code of Corporate Governance for Listed Companies (2016).

35 Principle 1/1 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait).

36 Article 3.2 of the Code of Corporate Governance for Public Listed Companies.

37 Article 2.7 of the Corporate Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority (Qatar).

38 Article 24 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia).

39 Article 3.3 of the Ministerial Resolution No. 518 of 2009 Concerning Governance Rules and Corporate Discipline Standards.

40 Article 1.3 of the Corporate Governance Code of the Kingdom of Bahrain (Bahrain); Chapter Two, Article 5 of the Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange (Jordan); Article 3 of the Code of Corporate Governance for Public Listed Companies (Oman); Article 7.1 of the Corporate Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority (Qatar); Article 1.3.1 of the Code of Good Corporate Governance Practices — 2008 (Morocco).

41 Article 153 of the Lebanese Commercial Code effectively provides that the company's board chair may also act as its general manager. As such, our recommendations with respect to the separation of the board chair and CEO/general manager positions do not apply to Lebanese companies. Article 14 of the Lebanese Corporate Governance Guidelines for Listed Companies nevertheless recommends the separation of both roles.

and CEO roles are combined without explanation and one of the following criteria is met: (i) the board is not sufficiently independent; or (ii) the board has failed to implement adequate measures to prevent and manage the potential conflict of interests deriving from the combination of the two positions such as appointing an independent lead or presiding director or adopting other countervailing board leadership structures. In the absence of a nominating committee, we may recommend voting against the board chair under these conditions.

Further, we typically encourage our clients to support separating the roles of board chair and CEO whenever that question is posed in a proxy, as we believe that it is in the long-term best interests of the company and its shareholders.

SIZE OF THE BOARD OF DIRECTORS

While we do not believe that there is a universally applicable optimum board size, we do believe that boards should have a minimum of five directors in order to ensure that there is sufficient diversity of views and breadth of experience in every decision the board makes. At the other end of the spectrum, we believe that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices makes it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

To that end, we typically recommend voting against the nominating committee chair if a board has more than 20 directors. Further, where a board has fewer than five directors we will recommend abstaining from voting on the election of the nominating committee chair. However, we may not apply this policy to small cap companies with smaller boards where a larger board may not be justified by the scope of the company's operations.[42]

The number of directors on a company's board in **Jordan**, **Lebanon**, **Oman**, **Qatar**, **Saudi Arabia** and **United Arab Emirates** must not exceed 13, 12, 12, 11, 11 and 11, respectively.[43] When the number of directors on a board is not within the range specified for the respective country, we will recommend voting against the nominating committee chair, or, in the absence of such a committee, the board chair.

MEETINGS OF THE BOARD OF DIRECTORS

Glass Lewis believes that the board of directors should hold a minimum of four meetings a year, considering the company's financial situation and reporting requirements. In **Jordan**, **Kuwait** and **United Arab Emirates**, corporate governance codes request at least six meetings a year, with no more than a two month gap between meetings.[44]

BOARD DIVERSITY

In recent years, many legislators and governance experts have advocated increased female representation on the boards of public companies. In **United Arab Emirates**, the Companies Act requires that all boards have at least one female director. While Glass Lewis values the importance of board diversity, believing there are a number of benefits in allowing individuals with a variety of backgrounds to participate in the decision-making process, we will not recommend voting against directors on this basis alone, but will note a concern where a board has not indicated any plan to meet market best practice standards.

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42 In the absence of a nominating committee, we will recommend voting against the board chair.

43 Article 132(a) of the Companies law no. 22 of 1997, as amended in 2006 (Jordan); Article 144 of the Lebanese Commercial Code (Lebanon); Article 95 of the Commercial Companies Law No. 4/1974 of Oman, as amended in 1997 (Oman); Article 95 of Commercial Companies Law No. 11 of 2015 (Qatar); Article 17 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia); Article 143.1 of Federal Law No. 2 of 2015 Concerning Commercial Companies (U.A.E.).

44 Article 2.3.4 of Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange (2012) (Jordan); Principle 1/1 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait); Article 3.6 of Ministerial Resolution No. (518) of 2009 Concerning Governance Rules and Corporate Discipline Standards (U.A.E.).

BOARD-LEVEL RISK MANAGEMENT OVERSIGHT

Glass Lewis evaluates the risk management function of a public company board on a strictly case- by-case basis. Sound risk management, while necessary at all companies, is particularly important at financial firms which inherently maintain significant exposure to financial risk. We believe such financial firms should have a chief risk officer and/or a risk committee that reports directly to the supervisory board or a committee of the supervisory board charged with risk oversight. Moreover, many non-financial firms maintain strategies that involve a high level of exposure to financial risk. As such, any non-financial firm that has a significant hedging strategy or trading strategy that includes financial and non-financial derivatives should also have a chief risk officer and/or a risk committee that reports directly to the board or a committee of the board. When analysing the risk management practices of public companies, we take note of any significant losses or write downs on financial assets and/or structured transactions. In cases where a company has disclosed a sizeable loss or writedown, and where a reasonable analysis indicates that the company's supervisory board-level risk committee should be held accountable for poor oversight, we will recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise),[45] we will consider recommending to vote against the board chair on that basis.

BOARD COMMITTEES

While companies in **Bahrain**, **Jordan**, **Oman**, **Saudi Arabia** and **United Arab Emirates** are required to establish audit, nominating and compensation committees, **Kuwaiti** companies require, in addition to the latter, risk and governance committees.[46] In **Jordan**, only audit committees are mandatory for public companies.[47] In **Lebanon**, **Morocco** and **Qatar**, while there are no binding rules on board committees, companies are recommended to establish audit, nominating and compensation committees.[48] In **Egypt**, companies should establish an audit committee and a risk committee or alternatively, a joint audit and risk committee.[49]

In the absence of committees required by applicable rules and regulations, we will generally recommend voting against the board chair, provided, however, that this will generally not apply to small-cap companies with a sufficient number of independent board members.[50]

AUDIT COMMITTEE PERFORMANCE

Glass Lewis generally assesses audit committees against the decisions they make with respect to their oversight and monitoring role. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

45 A committee responsible for risk management could be a dedicated risk committee, or another board committee (usually the audit committee or the finance committee), depending on a given company's board structure and method of disclosure. In some cases, the entire board is charged with risk management.

46 Article 1.7 of the Corporate Governance Code (Bahrain); Section Two, Article 1 of the Corporate Governance Code for Shareholding Companies listed on the Amman Stock Exchange (Jordan); Rule No. 3 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait); Articles 10 and 11 of the Code of Corporate Governance for Public Listed Companies (Oman); Article 50 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia); Article 6 of Ministerial Resolution No. 518 of 2009 Concerning Governance Rules and Corporate Discipline Standards (U.A.E.).

47 Article 17 of the Jordan Securities Commission Directives of Disclosure and Auditing and Accounting Standards of 2004 (Jordan); Article 7 of the Code of Corporate Governance for Public Listed Companies (Oman).

48 Article 12.d of the Corporate Governance Guidelines for Listed Companies (Lebanon); 1.2.3 of the Code Marocain de Bonnes Pratiques de Gouvernance des Etablissements et Entreprises Publics (Morocco); Articles 15 through 17 of the Corporate Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority (Qatar).

49 Article 3, Code of Corporate Governance for Listed Companies (2016).

50 In small companies the functions assigned to the committee may be performed by the board as a whole, provided it meets the composition requirements advocated for the committee and that adequate information is provided in this respect.

Standards for Assessing the Audit Committee

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities.

We believe shareholders should be wary of audit committees that include members that lack expertise in finance and accounting or in any other equivalent or similar areas of expertise. While we will not necessarily recommend voting against members of an audit committee when such expertise is lacking, we are more likely to recommend voting against committee members when there is evidence of poor accounting oversight resulting in problems like restatements and such expertise is lacking.

Glass Lewis generally assesses audit committees against the decisions they make with respect to their oversight and monitoring role. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work all provide useful information by which to assess the audit committee.

In **Kuwait** and **Saudi Arabia**, the board chair cannot hold membership in the audit committee. In **Oman**, the audit committee chair role should be separate from the board chair role and any other committee membership.[51] Accordingly, we will issue voting recommendations on this basis alone. Specifically, where the board fails to separate these roles, we will hold accountable the concerned board member.

When assessing the decisions and actions of the audit committee, we typically defer to its judgment and recommend voting in favour of its members, but we would recommend voting against the following members under the following circumstances:[52]

- **The audit committee chair** when: (i) audit and audit-related fees total less than 50% of the total fees billed by the auditor for two consecutive years; (ii) the committee did not hold a sufficient number of meetings considering the company's financial situation and reporting requirements i.e., at least four times a year; and/or (iii) the committee has fewer than three members.[53]

- **All members of an audit committee** in office when: (i) material accounting fraud occurred at the company; (ii) financial statements had to be restated due to serious material fraud; (iii) the company repeatedly fails to file its financial reports in a timely fashion in successive years; and/or (iv) the company has aggressive accounting policies and/or poor disclosure or lack of sufficient transparency in its financial statements.

COMPENSATION COMMITTEE PERFORMANCE[54]

Compensation committees have the primary role in determining the compensation of executives. This includes deciding the basis on which compensation is determined, as well as the amounts and types of compensation to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for such items as pay, pensions and severance arrangements. When establishing compensation arrangements, it is important that a significant portion of compensation be consistent with, and based on, the long-term economic performance of the business's long-term shareholders returns.

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51 Principle 2/4 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait); Article 51 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia); Article 10 of the Code of Corporate Governance for Public Listed Companies (Oman).

52 Where the recommendation is to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair. In the absence of an audit committee, we will recommend voting against the board chair.

53 Article 19.5 of the Corporate Governance Code for companies listed in Markets regulated by the Qatar Financial Markets Authority recommends public companies rotate their external auditor every three years. Accordingly, we will vote against the audit committee chair when a company in Qatar fails to replace an external auditor that has served for three or more consecutive years. Similarly, in Oman, companies are required to rotate their audit every four years. After completion of a fourth consecutive term, the audit may be re-appointed following a "cooling off period" of two years (Article 9 of the Code of Corporate Governance for Public Listed Companies (Oman)).

54 Several MENA markets do not require public companies to establish compensation committees.

Compensation committees are also responsible for the oversight of the transparency of compensation. This oversight includes disclosure of compensation arrangements, the matrix used in assessing pay for performance, and the use of compensation consultants. It is important to provide investors with clear and complete disclosure of all significant terms of compensation arrangements in order to allow them to make informed decisions with respect to the oversight and decisions of the compensation committee.

Finally, compensation committees are responsible for oversight of internal controls over the executive compensation process. This includes controls over gathering information used to determine compensation, establishment of equity award plans, and granting of equity awards. Lax controls contribute to allowing conflicted consultants providing potentially biased information to boards. Lax controls can also contribute to improper awards of compensation such as through granting of backdated or spring-loaded options, or granting of bonuses when triggers for bonus payments have not been met.

Standards for Assessing the Compensation Committee

In **Kuwait**, the board chair cannot hold membership in the compensation committee. In **Oman**, the compensation committee chair role should be separate from any other committee chairmanship.[55] In **Saudi Arabia**, the compensation committee chair role should be separate from the board chair role.[56] Accordingly, we will issue voting recommendations on this basis alone, where the board fails to separate these roles, we will hold accountable the concerned board member.

We evaluate compensation committee members based on their performance while serving on the compensation committee in question, even if they are not currently serving on the committee. When assessing the performance of compensation committees, we will recommend voting against the following:[57]

- **The compensation committee chair** if: (i) the compensation committee did not meet during the year (at least two meetings for **Omani** companies),[58] but should have (e.g., because executive compensation was restructured or a new executive was hired); and/or (ii) the company has consistently had poorly structured and disclosed compensation programs and has not made any changes.

- **All members of the compensation committee** (that served during the relevant time period) if: (i) the company entered into excessive employment agreements and/or severance agreements; (ii) performance goals were lowered when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained; (iii) excessive employee perquisites and benefits were allowed; and/or (iv) other egregious policies or practices.

NOMINATING COMMITTEE PERFORMANCE[59]

In **Kuwait**, the board chair cannot hold membership in the nominating committee. In **Oman**, the nominating committee chair role should be separate from any other committee chairmanship.[60] In **Saudi Arabia**, the nominating committee chair role should be separate from the board chair role.[61] Accordingly, we will issue voting recommendations on this basis alone. Specifically, where the board fails to separate these roles, we will hold accountable the concerned board member.

55 Principle 2/3 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait); Article 11 of the Code of Corporate Governance for Public Listed Companies (Oman).

56 Article 51 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia).

57 Where the recommendation is to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair. In the absence of a compensation committee, we will recommend voting against the board chair.

58 Article 11 of the Code of Corporate Governance for Public Listed Companies (Oman).

59 Several MENA markets do not require public companies to establish nominating committees.

60 Principle 1/3 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait); Article 11 of the Code of Corporate Governance for Public Listed Companies (Oman).

61 Article 51 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia).

The nominating committee, as an agent for the shareholders, is responsible and accountable for selection of objective and competent board members. We will recommend voting against the following nominating committee members under these circumstances:[62]

- **The nominating committee chair**: (i) if the nominating committee did not meet during the year, but should have (i.e., because new directors were nominated); and/or (ii) when the board is less than 50% non-executive or fails to satisfy Glass Lewis' country-specific independence thresholds.

- **All members of the nominating committee** (that served during the relevant time period) when the committee nominated or re-nominated an individual who had significant conflicts of interest or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

ELECTION PROCEDURES

STAGGERED BOARDS AND TERM LIMITS

Glass Lewis favours the repeal of staggered boards and the annual election of directors. We believe staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel the annual election of directors encourages board members to focus on shareholder interests. Moreover, empirical studies have shown: (i) companies with staggered boards reduce a firm's value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers, and delivers a lower return to target shareholders.[63]

In light of the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual election of directors.

In **Bahrain**, **Kuwait**, **Oman**, **Qatar** and **United Arab Emirates**,[64] the board may be elected for a term of up to three years. In **Bahrain**, **Kuwait**, **Qatar** and **United Arab Emirates**, the board may be reappointed for an unlimited amount of terms; for boards in **Oman**, directors may only be re-elected for a second term.[65] In **Jordan**, directors may be elected for a four-year term.[66] Given the existence of varying market practices, we will generally accept the presence of staggered boards, so long as director terms remain reasonable. However, we will recommend voting against the nominating committee chair when director terms exceed those advocated by best practice codes in a market without sufficient justification.

ELECTION METHOD

As more companies tend to update their policies to adopt cumulative voting for elections of directors in **Egypt**, **Qatar**, **Saudi Arabia** and **United Arab Emirates**, and as recommended by their local codes, we have updated our policies to reflect casting votes according to the cumulative method, unless otherwise stated.[67] Under this system, the number of voting shares of each shareholder is multiplied by the number of persons to be elected, and a shareholder has the right to cast all votes for one candidate or divide the votes among two or more candidates. It is important to note that ownership in **Qatar** and **United Arab Emirates** are quite

62 Where the recommendation is to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair. In the absence of a nominating committee, we will recommend voting against the board chair.

63 Lucian Bebchuk, Alma Cohen, "The Costs of Entrenched Boards" (2004) and Lucian Bebchuk, Alma Cohen and Charles C.Y. Wang, "Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment," SSRN: http://ssrn.com/abstract=1706806 (2010), p. 26.

64 Article 172 of Commercial Companies Law (Bahrain); Principle 1/1 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait); Article 95 of Commercial Companies Law No. 4/1974 (Oman); Article 95 of Commercial Companies Law No. 11 of 2015 (Qatar); Article 143.1 of the Federal Law No.2 of 2015 Concerning Commercial Companies (U.A.E.).

65 *Ibid.*

66 Article 132 of Companies Law No. 22 of 1997 (Jordan).

67 Article 5.2 of Code of Corporate Governance for Listed Companies (2016) (Egypt); Article 26.2 of Corporate Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority (2009) (Qatar); Article 8 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia); Article 12.2(c) of Ministerial Resolution No. (518) of 2009 Concerning Governance Rules and Corporate Discipline Standards (U.A.E.).

concentrated — many companies are controlled by the local governments. For such companies, a board's composition will usually reflect the controlling shareholder's significant ownership stake. As a result, we will generally recommend shareholders cumulate their votes equally among several of the independent nominees to ensure that minority shareholders are represented on the board. We will recommend abstaining from voting on the remaining nominees.

In **United Arab Emirates**, nominations remain open for a period of **14** days following the announcement of board vacancies or the notice of meeting. Nominees' names must be published only **5** days before the company's annual general meeting on the notice board and both the stock exchange and company's websites.[68] Shareholders voting by proxy face significant obstacles to participating in board elections when information is not made available well in advance of the meeting. Where information regarding a proposal to elect directors or to adopt cumulative voting has not been made available **18** days prior to the meeting date, in many cases shareholders voting by proxy will not have the opportunity to cast informed votes on the election of directors. Given the typical late disclosure of nominees, Glass Lewis will generally recommend abstaining from voting on the nominees in **United Arab Emirates** in order to meet vote deadlines.

ELECTION OF DIRECTORS AS A SLATE

Some markets in the MENA region elect their board members as a slate, whereby shareholders are unable to vote on the election of each individual director, but rather vote on the board as a whole. Glass Lewis believes the practice of electing directors as slates is contrary to principles of good corporate governance, as slates make it more difficult for shareholders to hold individual members of the board accountable for their actions. When we recommend voting for a slate but have concerns with individual directors, we will note such concerns in our analysis of the board in the relevant proposal.

More specifically, if significant issues exist concerning any of the nominees, we will recommend voting against the entire slate. However, when our concerns are limited to poor attendance or an excessive number of public company directorships or audit committee memberships, and the aggregate number of directors with these issues represent less than one-third of the total board, we will note our concerns but recommend that shareholders vote for the entire slate of directors.

RATIFICATION OF THE CO-OPTION OF BOARD MEMBERS

In certain instances, board members are appointed directly by the board to serve as directors. Shareholders are then asked to ratify the co-opted board member and formally appoint him/her for a new term. We apply the same standards for evaluating such directors as we do when evaluating directors elected at a general meeting.

BOARD EVALUATION AND REFRESHMENT

Glass Lewis strongly supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations, as opposed to relying solely on age or tenure limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. This said, we recognise that in rare circumstances, a lack of refreshment can contribute to a lack of board responsiveness to poor company performance.

On occasion, age or term limits can be used as a means to remove a director for boards that are unwilling to police their membership and enforce turnover. Some shareholders support term limits as a way to force change in such circumstances.

68 Article 12.5 (a) and (b) of Ministerial Resolution No. (518) of 2009 Concerning Governance Rules and Corporate Discipline Standards (U.A.E).

While we understand that age limits can aid board succession planning, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. We believe that shareholders are better off monitoring the board's overall composition, including its diversity of skill sets, the alignment of the board's areas of expertise with a company's strategy, the board's approach to corporate governance, and its stewardship of company performance, rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

As such, we generally recommend voting against proposals that seek to introduce age or term limits. Similarly, we generally recommend voting for proposals that seek to repeal or increase age limits.

LACK OF ADEQUATE DIRECTOR DISCLOSURE

Market practice for disclosure of information regarding board nominees is generally poor across MENA. In some cases, where we believe shareholders have not been provided with sufficient information in order to make an informed decision regarding the election of a director, we will recommend that shareholders abstain from voting on the candidate. We will recommend that shareholders abstain from voting on a candidate for election to the board when any of the following applies: (i) the name of the nominee has not been disclosed; (ii) no biographical details for the nominee have been disclosed; or (iii) the name of a natural person representing a legal person or entity, which is otherwise entitled to serve on the board, has not been disclosed.

In addition, we generally recommend that shareholders abstain from voting on a board nominee when a company's disclosure of biographical information for the nominee falls below market practice. Information that Glass Lewis considers particularly critical for shareholder review when evaluating a candidate for election include the following: (i) the independence of the nominee; (ii) the nature of any relationships between the nominee and the company, its directors and executives, major shareholders and any other related parties; (iii) the current occupation and outside directorships held by a nominee; and (iv) the relevant experience and skills possessed by a nominee. When any of this information has not been disclosed, Glass Lewis may recommend that shareholders abstain from voting on the nominee.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND REPORTS/CONSOLIDATED ACCOUNTS AND REPORTS

A company's consolidated financial statements combine the activities of the company, as well as the activities of its subsidiaries. As a routine matter, company law in several MENA markets require that shareholders approve companies' annual and consolidated financial statements, generally within two to four months following the close of the fiscal year, in order for them to be valid.[69]

Unless there are concerns about the integrity of the financial statements or reports, we will recommend voting for these proposals. We will generally recommend voting for proposals seeking to acknowledge the receipt of a company's accounts and reports provided they are available to shareholders.

However, in the event that the audited financial statements have not been made available, we do not believe shareholders have sufficient information to make an informed judgement regarding these matters. As such, we will recommend that shareholders abstain from voting on the relevant agenda items.

ALLOCATION OF INCOME

In most MENA markets, companies must submit the allocation of income for shareholder approval. Glass Lewis believes that the board is in the best position to determine a company's capital structure. When a company proposes to allocate net profits or losses to reserves, or to transfer reserves between accounts, we will recommend that shareholders vote for the proposed allocation or transfer.

ALLOCATIONS TO RESERVES/TRANSFER OF RESERVES

In **Bahrain**, **Jordan**, **Kuwait**, **Lebanon**, **Oman**, **Qatar** and **United Arab Emirates**, companies are required to allocate at least 10% of their net profits to a legal reserve. Additional allocations to legal reserves in these markets are no longer required when the legal reserve reaches 50% (25% in the case of **Jordan** and one-third in the case of **Oman**) of the company's share capital (i.e., the nominal value of all company issued shares).[70] Statutory reserve may be used to cover the company's losses or to ensure the distribution of dividends to shareholders, in the financial years in which the company's profits do not allow it.

ALLOCATION OF PROFITS/DIVIDENDS

After the statutory requirement for allocation to the legal reserve has been met, companies in **Kuwait**, **Oman**, **Qatar** and **United Arab Emirates** have to declare a dividend of at least 5% or the minimum ratio set forth in a

69 Article 283 of the Commercial Companies Law of 2001 (Bahrain); Article 144(b) of the Companies Law No. 22 of 1997, as amended in 2006 (Jordan); Article 196 of the Lebanese Commercial Code (Lebanon); Article 120 of the Commercial Companies Law no.4/1974 of Oman, as amended in 1997 (Oman); Article 127 of Law No. 11 of 2015 (Qatar); Article 94.2 of the Federal Law No. 2 of 2015 Concerning Commercial Companies (U.A.E).

70 Article 224 of the Commercial Companies Law of 2001 (Bahrain); Article 186 of the Companies Law No. 22 of 1997, as amended in 2006 (Jordan); Articles 222 and 225 of Law No. 1 of 2016 on the Promulgation of the Companies Law (Kuwait); Article 196 of the Lebanese Commercial Code (Lebanon); Article 106 of the Commercial Companies Law No. 4/1974 of Oman, as amended in 1997 (Oman); Article 185 of Law No. 11 of 2015 (Qatar); Article 239.1 of Federal Law No. 2 of 2015 Concerning Commercial Companies (U.A.E).

company's articles of association, whichever is higher.[71] In addition, all of these countries can elect to allocate a portion of their profits to a special/optional reserve and/or to carry the profits forward in retained earnings, once mandatory dividend payments are distributed.

With respect to dividends, we generally support the board's proposed dividend (or the absence thereof). However, we may recommend that shareholders vote against a proposed dividend in cases where a company's dividend payout ratio, based on consolidated earnings, has decreased to an exceptionally low level from a more reasonable payout ratio and for which no rationale or corresponding change in dividend policy has been provided by the company. In cases where a company has eliminated dividend payments altogether without explanation, we may recommend shareholders vote against the proposal. We will also scrutinise dividend payouts that are consistently excessively high relative to the company's peers, its own financial position or its level of maturity without satisfactory explanation. In most cases, we believe the board is in the best position to determine whether a company has sufficient resources to distribute a dividend to shareholders. As such, we will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

BONUS SHARE ISSUE/DIVIDENDS-IN-KIND

It is common in some MENA markets for companies to propose the issuance of new shares to shareholders on a pro rata basis in lieu of, or in addition to, a cash dividend. Generally, the issuance of bonus shares is similar to a dividend distribution effected by the capitalisation and distribution of the company's capital reserves. Moreover, since the additional shares are usually allocated proportionally, the distribution does not affect the percentage ownership interest of current shareholders and it allows the Company to reinforce its capital structure while rewarding its shareholders. Glass Lewis generally recommends voting for such proposals.

APPOINTMENT OF AUDITOR AND AUTHORITY TO SET FEES

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and to do a thorough analysis of a company's books to ensure that the information provided to shareholders is complete, accurate, fair, and that it is a reasonable representation of a company financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health.

Shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company in which the investors hold an interest. Like directors, auditors should be free from conflicts of interest and should avoid situations requiring a choice between the auditor's interests and the public's interests. Almost without exception, shareholders should be able to annually review an auditor's performance and to annually ratify a board's auditor selection.

VOTING RECOMMENDATIONS ON AUDITOR APPOINTMENT

We generally support management's choice of auditor except when we believe the auditor's independence or audit integrity has been compromised. When there have been material restatements of annual financial statements or material weakness in internal controls, we usually recommend voting against the auditor. However, we do not believe it is appropriate to hold a company's auditor responsible for the company's failure to comply with reporting obligations or a lack thereof.

71 Articles 222 and 225 of Law No. 1 of 2016 on the Promulgation of the Companies Law (Kuwait); Article 106 of the Commercial Companies Law No. 4/1974 of Oman, as amended in 1997 (Oman); Article 185 of Law No. 11 of 2015 (Qatar); Article 239.1 of Federal Law No. 2 of 2015 Concerning Commercial Companies (U.A.E).

Reasons why we may recommend voting against the ratification of an auditor include:

- When audit fees plus audit-related fees total less than the tax fees and/or other non-audit fees.[72]

- Recent material restatements of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.[73]

- When the company has aggressive accounting policies evidenced by restatements or other financial reporting problems.

- When the company has poor disclosure or lack of transparency in its financial statements.

- Other relationships or concerns with the auditor that might suggest a conflict between the auditor's interests and shareholder interests.

In cases where the company does not disclose sufficient information regarding the appointment or ratification of the auditor (e.g., the name of the auditor), we will recommend an abstain vote. However, we note that in several MENA countries, it is neither required nor common to disclose past or proposed auditor's fees. Thus, based on market practice, we will recommend that shareholders support the auditor's appointment as long as the proposed auditor has been identified and we have found no evidence that the auditor's integrity has been compromised.

72 We note that in several MENA countries, it is neither required nor common to disclose past or proposed auditor's fees. We do not recommend voting against the auditor on this basis.

73 An auditor does not audit all interim financial statements. Thus, we generally do not believe that an auditor's appointment should be opposed due to a restatement of interim financial statements unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

The Link Between Compensation and Performance

DIRECTORS' FEES

Glass Lewis believes compensation paid to non-employee board members for the time and effort they spend serving on the board and its committees should be reasonable. Board fees should be competitive in order to retain and attract qualified individuals but should generally not be performance based. Excessive fees represent a financial cost to the company and, along with performance-based compensation, threaten to compromise the objectivity and independence of non-employee board members. In line with global best practices, we generally recommend voting against stock option grants (if granted on the same terms as executive awards) and performance or profit-based payments for directors. In **Bahrain**, **Egypt**, **Jordan**, **Kuwait**, **Oman** and **United Arab Emirates**, aggregate annual director remuneration cannot exceed 10% of a company's net profit (or 5% of a company's net profit in **Qatar**) following the distribution of dividends and allocations to reserves. In addition, director remuneration in **Jordan** cannot exceed JD 5,000 per director, while that of non-independent directors in **Kuwait**, is capped at KD 6,000.[74]

EQUITY-BASED COMPENSATION PLANS

Glass lewis believes that equity compensation awards are a useful tool, when not abused, for retaining and incentivising employees to engage in conduct that will improve the performance of the company.

We recognise that equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, we take factors such as the administration of the plan, the method and terms of exercise, repricing history and express or implied rights to reprice, the presence of evergreen provisions and other factors into account in our analysis.

74 Principle 2/3 of Corporate Governance Regulations for companies No. (CMA/S.S./C.G /3/2013) (Kuwait).

Governance Structure and the Shareholder Franchise

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from reviewing each amendment on its own merit. In such cases, we will analyse each change on its own. We will recommend voting for the proposal only when, on balance, we believe the amendments are in the best interests of shareholders.

All the matters included within a company's articles of association generally have a significant effect on the company's shareholders. In the event the company does not provide any information regarding proposed changes to the articles, we will recommend shareholders abstain from voting on the proposal.

RATIFICATION OF BOARD, MANAGEMENT AND AUDITOR'S ACTS

Shareholder ratification of board, management and/or auditors' acts during the previous fiscal year is required in many MENA markets. The legal consequences of the ratification vary by market, and our analysis and recommendations take this into account, including in particular potential prejudice to shareholder recourse from ratification.

We evaluate the various ratification proposals on a case-by-case basis and will generally recommend supporting such proposals except when we identify material concerns with the actions of the board, management or auditors' acts, as relevant, and/or with the integrity and performance of the individuals whose acts are subject to ratification. We will recommend abstaining from voting on the ratification of board, management and auditors' acts when the audited financial statements are not made available in sufficient time for shareholders to review prior to submitting votes, or when shareholders otherwise do not have enough information to make an informed decision regarding the board's, management's or the auditor's actions in the prior year. We may recommend voting against a ratification proposal under the following conditions:

- Where there has been a finding or conviction of fraud or other illegal activities, or credible, pending accusation of such, by members of the board, management or auditing firm that may be damaging to shareholders' interests;

- When there are serious, credible allegations or pending investigations of claims of fraud, illegal activities, or other actions resulting in, or with the likely potential to result in, material damage to shareholder value;

- The report of the independent auditor notes a material weakness, serious restatement, or failure to comply with accounting norms;

- In cases where there is ongoing legal action against or concerning members of the board, management or auditing firm and we believe the postponement of ratification or the individual ratification of board members (if possible) would better serve the interests of shareholders;

- The board has consistently failed to address material shareholder concerns; or

- Other exceptional cases in which the board's or management's actions (or their failure to act) have clearly damaged shareholder value. When we have serious concerns regarding the actions of the board and no members of the board are up for election, we may recommend voting against the ratification of board acts, depending on the materiality of the concerns.

RELATED PARTY TRANSACTIONS

Shareholders may be given the opportunity to approve material related party transactions. We will evaluate related party transactions on a case-by-case basis. We generally recommend approval of any transaction which falls within the company's regular course of business, so long as the terms of the transaction have been verified to be fair and reasonable by an independent auditor or independent board committee, in accordance with prevailing market practice.

ANTI-TAKEOVER DEVICES

Glass Lewis believes that authorities that are intended to prevent or thwart a potential takeover of a company are not conducive to good corporate governance and can reduce management accountability by substantially limiting opportunities for shareholders.

SUPERMAJORITY VOTING REQUIREMENTS

Glass Lewis believes that supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to shareholder interests. One key example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business. While we recognise that supermajority voting requirements are imposed by national law for approval of certain proposals in most MENA markets, we will recommend voting against any proposal seeking to extend supermajority voting requirements to decisions where a supermajority requirement is not stipulated by law and such provisions are not clearly designed to protect the interests of minority shareholders.

In cases where a company seeks to abolish supermajority voting requirements we will evaluate such proposals on a case-by-case basis. In many instances, amendments to voting requirements may have a deleterious effect on shareholders rights where a company has a large or controlling shareholder. Therefore, in analysing such proposals Glass Lewis will take into account additional factors including: shareholder structure; quorum requirements; impending transactions — involving the company or a major shareholder — and any internal conflicts within the company.

CAPS ON VOTING RIGHTS

Companies may retain the right to impose absolute caps on the number of voting rights that may be exercised by a single shareholder or group of shareholders. Glass Lewis is strongly opposed to such measures and will recommend that shareholders vote to remove or increase any existing cap on voting rights that is posed in a proxy. We also recommend that shareholders vote against the introduction of any cap or restriction on shareholder voting rights or the lowering of any existing cap on voting rights.

RIGHTS OF SHAREHOLDERS TO CALL A SPECIAL MEETING

Glass Lewis strongly supports the right of shareholders to call special meetings. However, in order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that only shareholders holding at least 10% of a company's share capital should be allowed to call a special meeting.

In **Bahrain, Kuwait** and **Qatar** shareholders holding at least 10% of a company's share capital are allowed by law to call a special meeting.[75] Similarly, the ownership threshold to call a special meeting in **Lebanon**, **Saudi Arabia**, **Jordan**, **Oman** and **United Arab Emirates** is 5%, 5%, 15%, 25% and 20%, respectively.[76]

ROUTINE ITEMS

In general, Glass Lewis believes that procedural matters, which are premised on physical attendance at the general meeting, do not harm shareholders' interests.

MEETING PROCEDURES

In several MENA markets, companies often ask that shareholders approve meeting procedures, which include, but are not limited to: (i) opening of the meeting; (ii) appointment of a presiding chair; (iii) minutes of the meeting; and (iv) closing of the meeting. These items are generally routine in nature and do not have a significant impact on shareholders. In most cases, shareholder votes serve as an acknowledgment that the meeting was properly conducted and all meeting procedures were met. As such, Glass Lewis always recommends voting for these items.

AUTHORITY TO CARRY OUT FORMALITIES

As a routine matter, shareholders may be asked to grant management the authority to complete any and all formalities, such as required filings and registrations, needed to carry out decisions made at the meeting. Often, shareholders are also asked to approve the minutes. In general, we recommend voting for this proposal in order to help management complete the formalities necessary to validate the decisions made at the annual meeting, regardless of whether we support all the proposals presented at the meeting.

PRESENTATION OF REPORTS

Companies in the MENA region routinely submit the presentation of various reports or policies for shareholder consideration. This often involves the presentation of reports of the board and/or auditor(s), as well as presentation of information regarding guarantees, charitable donations, or related party transactions. In these cases, we recognise that shareholders are only voting to acknowledge receipt of this information and are not approving the substance and content of these reports. As such, Glass Lewis always recommends voting for these items.

TRANSACTION OF OTHER BUSINESS

In our view, this proposal is different from other routine items. We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before the annual meeting. In our opinion, granting unfettered discretion is unwise.

75 Article 211 of the Commercial Companies Law of 2001 (Bahrain); Article 124 of Law No. 11 of 2015 (Qatar).

76 Article 172 of the Companies Law No. 22 of 1997, as amended in 2006 (Jordan); Article 116 of the Commercial Companies Law No. 4/1974, as amended in 1997 (Oman); Article 174.1 of the Federal Law No. 2 of 2015 Concerning Commercial Companies (U.A.E.); Article 5(b) of Corporate Governance Guidelines for Listed Companies 2010 (Lebanon).

Capital Management

INCREASES IN CAPITAL

Glass Lewis believes that adequate capital stock is important to a company's operation. MENA companies are authorised to increase share capital through several methods, which may or may not involve the issuance of shares.

ISSUANCE OF SHARES AND/OR CONVERTIBLE SECURITIES

In general, issuing an excessive amount of additional shares and/or convertible securities can dilute existing holders. Further, the availability of additional shares, when the board has discretion to implement a poison pill, can often serve as a deterrent to interested suitors. Accordingly, where we find that the company has not detailed a plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically recommend against the authorisation of additional shares.

While we believe that adequate share issue authorities to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management should justify to shareholders the use of additional shares rather than shareholders providing the company a blank check in the form of a large pool of unallocated shares available for any purpose.

In **Bahrain**, **Jordan**, **Lebanon**, **Qatar**, **Saudi Arabia** and **United Arab Emirates**, shareholders are required to approve all proposals related to the issuance of shares or increases in authorised capital.[77] The length of the issuance authority ranges from one to five years. In addition, in **Bahrain** and **United Arab Emirates**, companies are prohibited from issuing shares without preemptive rights.[78]

WITH OR WITHOUT PREEMPTIVE RIGHTS

In our view, any general authorisation to issue shares and/or convertible securities with preemptive rights should not exceed 100% of a company's total share capital and any general authorisation to issue shares and/or convertible securities without preemptive rights should not exceed 20% of the company's total share capital. When sufficient information is disclosed to establish a broader context in which to consider the proposed increase, we may take into account a company's existing authorities to issue shares and/or convertible securities, and how they have been used, to determine the total potential dilution the proposed authority has on existing shareholders.

RIGHTS ISSUES

When a company seeks shareholder approval of a specific plan to issue shares with preemptive rights, we will evaluate the plan on a case-by-case basis. We will generally approve rights issues, even in excess of 100% of a company's current issued share capital, when the following conditions are met: (i) the total number of shares to be issued, or intended proceeds of the issue, is reasonable; (ii) the price at which the shares will be issued is reasonable; and (iii) the intended uses of the proceeds from the issuance are sufficiently justified in light of the company's financial position and business strategy.

77 Article 125 of the Commercial Companies Law of 2001 (Bahrain); Article 112 of the Companies Law No. 22 of 1997, as amended in 2006 (Jordan); Article 196 of the Lebanese Commercial Code (Lebanon); Article 191 of Law No. 11 of 2015 (Qatar); Article 5 of The Corporate Governance Regulations of Capital Markets Authority (Saudi Arabia); Article 194 of the Federal Law No. 2 of 2015 Concerning Commercial Companies (U.A.E). Pursuant to article 82 of the Commercial Companies Law No. 4/1974, as amended in 1997, public companies in Oman do not need shareholder approval to issue shares within the limits of authorised capital. Changes to authorised capital do require shareholder approval.

78 Article 238 of the Commercial Companies Law of 2001 (Bahrain); Article 197.1 of the Federal Law No. 2 of 2015 Concerning Commercial Companies (U.A.E).

We view general authorities intended to service awards under a variety of equity programs, where a plan has not been specified, on a case-by-case basis. However, we generally expect such authorities to fall under 5% of a company's total issued share capital.

PRIVATE PLACEMENTS

We evaluate these proposals on a case-by-case basis. In general, we expect companies to provide a specific and detailed rationale for such proposals.

CAPITALISATION OF RESERVES OR PROFITS

The successive or simultaneous capitalisation (i.e., incorporation) of reserves, retained earnings or paid- in capital, resulting in the free allotment of shares and/or an increase in the par value of shares, is another method companies may elect in order to increase their paid-in capital. In these cases, there is no risk of shareholder dilution. We believe that decisions regarding such changes to a company's capital structure are best left up to management and the board, absent evidence of egregious conduct, and will generally recommend that shareholders vote for related proposals.

SUPPLYING EQUITY PROGRAMS

In general, we recommend voting for authorities intended to supply awards under existing equity programs that were previously approved by shareholders. Where a company is seeking to renew an authority to issue new shares under a specific plan that is itself also being renewed, we will evaluate the proposal in line with the specified plan terms.

We view general authorities intended to service awards under a variety of equity programs, where a plan has not been specified, on a case-by-case basis. However, we generally expect such authorities to fall under 5% of a company's total issued share capital.

STOCK SPLIT

We typically consider two metrics when evaluating whether a proposed stock split is reasonable: (i) the historical pre-split stock price; and (ii) the current price relative to the company's average trading price over the past 52 weeks. In general, we recommend voting for these proposals when a company's historical share price is in a range where a stock split could facilitate trading, assuming the board has provided adequate justification for the proposed split.

ISSUANCE OF DEBT INSTRUMENTS

When companies seek shareholder approval to issue debt we evaluate the terms of the issuance, the requested amount and any convertible features, among other aspects. If the requested authority to issue debt is reasonable and we have no reason to believe that the increase in debt will weaken the company's financial position, we will usually recommend in favour of such proposals. In MENA, it is a routine matter for shareholders to grant the board authorisation to issue and/or trade in non-convertible, convertible and/or exchangeable debt obligations, at any time, in accordance with the applicable legal standards.[79] However, we will recommend shareholders abstain from voting on this item if the company does not, at a minimum, specify the total amount of debt requested under the proposed authority.

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79 Article 138 of the Commercial Companies Law of 2001 (Bahrain); Article 116 of the Companies Law No. 22 of 1997, as amended in 2006 (Jordan); Article 122 of the Lebanese Commercial Code (Lebanon); Article 86 of the Commercial Companies Law No. 4/1974, as amended in 1997 (Oman); Article 169 of Law No. 11 of 2015 (Qatar); Article 177 of Law No. 8 of 1984 Concerning Commercial Companies (U.A.E). In Bahrain, only companies in which the government or any other public entity owns at least 30% of the capital may issue bonds.

AUTHORITY TO REPURCHASE SHARES

A company may want to repurchase or trade in its own shares for a variety of reasons. A repurchase plan is often used to increase the company's stock price, to distribute excess cash to shareholders or to provide shares for equity-based compensation plans for employees. In addition, a company might repurchase shares in order to offset dilution of earnings caused by the exercise of stock options.

We will recommend voting in favour of a proposal to repurchase and trade in company stock when the authority includes: (i) a maximum number of shares which may be purchased; (ii) a maximum price which may be paid for each share (as a percentage of the market price); and (iii) an expiration date of eighteen months or less.[80]

AUTHORITY TO CANCEL SHARES AND REDUCE CAPITAL

In conjunction with a share repurchase program, companies often proceed to cancel the repurchased shares. When a company requires specific authorisation to cancel treasury shares, we generally recommend that shareholders vote for such proposals.

80 United Arab Emirates limits the number of shares which may be repurchased to no more than 10% of the company's capital (Article 219.2 of the Federal Law No. 2 of 2015 Concerning Commercial Companies). In Oman, companies are not allowed to purchase their own shares except for the purpose of reducing capital (Article 85 of the Commercial Companies Law No. 4/1974, as amended in 1997).

Shareholder Initiatives

Glass Lewis generally believes decisions regarding day-to-day management and policy decisions, including those related to social, environmental or political issues, are best left to management and the board as they in almost all cases have more and better information about company strategy and risk. However, when there is a clear link between the subject of a shareholder proposal and value enhancement or risk mitigation, Glass Lewis will recommend in favour of such proposal where the company has failed to or inadequately addressed the issue.

We strongly feel that shareholders should not attempt to micromanage the company, its business or its executives through the shareholder initiative process. Rather, we believe shareholders should use their influence to push for governance structures that protect shareholders and promote director accountability. Shareholders should put in place a board they can trust to make informed decisions that are in the best interests of the business and its owners, and hold directors accountable through the election of directors.

To this end, we examine the circumstances at each company on a case-by-case basis. We thoroughly research each firm, using publicly available information, such as annual reports, sustainability reports, companies' websites, and news sources. When we identify situations where shareholder value may be at risk, we will note our concerns in the relevant section of the Proxy Paper analysis as well as in any applicable shareholder proposals. Though relatively rare in MENA, should a shareholder proposal seek action on a specific ESG issue, Glass Lewis will recommend voting in favor of such a proposal when we believe its implementation will enhance or protect shareholder value. We will also recommend voting in favor of a proposal if we believe supporting such proposal will promote disclosure of significant risk exposure. Only in rare cases will we recommend shareholders vote against board members based on ESG concerns. Please see "Transparency and Integrity in Financial Reporting" for further information on how we analyse mandatory non-financial and sustainability reporting requirements.

ENVIRONMENTAL, SOCIAL & GOVERNANCE INITIATIVES

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*, available at www.glasslewis.com.

DISCLAIMER

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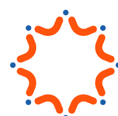

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