

## Translation

### Corporate Governance Report for 2016

#### First Rule

#### Building a Balanced Structure of the Board of Directors

- A brief about the board of directors composition in the following manner:

Name	Title	Director's classification (executive/non executive/independent), secretary	Academic qualification and practical experience	Election/appointment of secretary date
Mr. Nasser Bader Ahmad Al Sharhan	Chairman	Non executive	Bachelor of political science and marketing	28/5/2014
Mr. Abdulrazak Zayed Abdulrahman Al Dabian	Deputy chairman	Non executive	Bachelor of Civil Engineering	28/5/2014
Mr. Ahmad Mahmoud Yehia Al Yehia	Board member	Non executive	Bachelor of chemical engineering	28/5/2014
Mr. Khaled Faisal Bader Al Oun	Board member	Independent	Masters of business administration	28/5/2014
Mr. Malek Maher Maarfi	Board member	Non executive	Bachelor of finance	28/5/2014
Mr. Abdulmohsen Ahamd Abdulmohsen Al Mutair	Board member	Independent	Bachelor of administrative sciences	28/5/2014
Mr. Bassam Mohamed Taleb Wahidi	Board member	Non executive	Bachelor of Science – Statistics	12/12/2016
Mr. Nashaat Naaim Daghmarsh	Board secretary	Secretary	Bachelor of business administration	15/5/2016

- A brief on the board meetings, according to the following details:

### Board of Directors Meetings During the Year 2016

Board member	Meeting No.1/2016 held on 31/3/2016	Meeting No.2/2016 held on 15/5/2016	Meeting No.3/2016 held on 22/5/2016	Meeting No.4/2016 held on 14/8/2016	Meeting No.5/2016 held on 5/9/2016	Meeting No.6/2016 held on 15/11/2016	Meeting No.7/2016 held on 30/11/2016	Decision by passing No.1/2016 held on 12/12/2016	Number of meetings
Nasser Bader Ahmad Al Sharhan (chairman)	✓	✓	✓	✓	✓	✓	✓	✓	8
Abdulrazak Zayed Abdulrahman Al Dabian (deputy chairman)	✓	✓	✓	✓	✓	✓	✓	✓	8
Ahmad Mahmoud Yehia Al Yehia (board member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Jaheel Mohamed Jaheel (board member)	✓	✓	✓	-	-	-	Resignation		2
Khaled Faisal Bader Al Oun (board member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Malek Maher Maarfi (board member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Abdulmohsen Ahmad Abdulmohsen Al Mutair (board member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Bassam Mohamed Taleb Wahidi (board member)	Not a board member during this period							✓	1

- A brief on the Implementation of the registration and coordination requirements and keeping the Company board of directors meeting minutes

The board of directors secretary undertakes the tasks of writing the board meeting minutes which comprise the discussions and deliberations which took place during the meetings, the decisions taken and any reservations (if any). These minutes are signed by him and by all those present.

Further, there is a special register in which the minutes of the meetings are recorded in serial numbers for the year in which the meetings were held, indicating the place and date of the meeting, and its starting and ending hour to make it easy to refer to such minutes.

The minutes of the meetings, records, reports and other documents submitted by and to the board are kept with the secretary. Further, the secretary ensures that the board members follow the procedures approved by the board, ensures the notification of the board meeting dates at least three working days before the meeting, taking into consideration urgent meetings. This is in addition to ensuring that the board members can fully and promptly access the meeting minutes, information and documents relevant to the company. This in addition to undertaking under the supervision of the board chairman securing the proper communication and distribution of information and coordination between the board members and other stakeholders in the company.

## **Second Rule**

### **Proper Identification of Tasks and Responsibilities**

- A brief on the method of the Company's identification of the tasks and responsibilities policy, the duties of each member of the board of directors and executive management, as well as the powers and authorities delegated to the executive management:

The board of directors undertakes all the required authorities and powers for management of the company. The authorities, tasks and responsibilities of the board of directors are outlined in the company articles of association and the work code approved by the board, taking into consideration the terms of reference of the company general assembly. Among the most significant of these tasks and responsibilities are the following:

- Adoption of the company's strategy, objectives, work plans and estimated budgets.
- Adoption of interim and annual financial statements.
- Adoption of internal charters, regulations and policies.
- Establishing and supervising a corporate governance system, including the preparation of an annual corporate governance report.
- The formation of specialized committees emanating from board
- Defining the powers delegated to the executive management.
- Supervising and controlling the performance of the executive management.
- Ensure periodically the effectiveness and adequacy of internal control systems.

In addition to the Board of Directors' obligations, the Chairman of the Board is responsible for representing the Company vis-à-vis others, and for the proper functioning of the Board of Directors in an appropriate and effective manner, including obtaining full and timely information, encouraging the constructing relation and efficient participation between the Board of Directors and the executive management, as well as other responsibilities.

Further, the responsibilities and tasks of the executive management are also determined in the policies adopted by the Board of Directors. The most prominent of these tasks and responsibilities are the following:

- Implementation of the strategy and annual plans approved by the Board of Directors.
- Implementation of all internal policies adopted by the Board of Directors.
- Full responsibility for the overall performance of the company and its business results.
- Establishing internal control systems and ensuring the adequacy and effectiveness of these systems.
- Preparing periodic reports on the company's activities and presenting them to the Board of Directors.

The Board of Directors shall also determine the powers delegated to the executive management, taking into account the balance of powers and authorities between the Board of Directors and the Executive Management, so that no party shall have exclusive powers to facilitate the process of accountability.

- Highlights of the Board of Directors Achievements During the Year:
  - Adoption of the organizational structure of the company.
  - Adoption of the policies and charters related to corporate governance.
  - Composition of committees (Risk Management Committee - Internal Audit Committee - Nomination and Remuneration Committee).
  - Approval of the exit from the investment of the National Drilling Company.

- A brief about the implementation of the requirements for the composition by the Board of Directors of specialized committees enjoying independence:

The Board of Directors has formed three independent committees to enable it to carry out its functions effectively and to supervise the various governance applications. These committees operate according to charters approved by the Board of Directors, which explain the duration of their work, their powers, duties and responsibilities and the method of the Board's control over them according to the following:

<b>Nominations and Remunerations Committee</b>	
<b>Date of the Committee formation and its duration</b>	15/8/2016 – membership tenure is the same tenure of their membership in the board of directors
<b>Number of the meetings held by the committee during the year</b>	2
<b>Committee composition</b>	Mr. Ahmad Mahmoud Al Yehia – Committee chairman Mr. Khaled Faisal Al Oun Mr. Abdulmohsen Ahmad Al Mutair
<b>Key tasks and responsibilities of the committee</b>	<ul style="list-style-type: none"> <li>- Recommend acceptance of nomination and re-nomination to the Board of Directors and executive management.</li> <li>- Setting a clear policy for the remuneration of Board members and executive management.</li> <li>- Determining the different segments of the remunerations granted whether directly or indirectly.</li> <li>-Develop job descriptions for executive members, non-</li> </ul>

	<p>executive members and independent members.</p> <ul style="list-style-type: none"> <li>- Ensure that the independence of the independent board member does not become independent.</li> <li>-Annual review of the required skills requirements for Board membership.</li> <li>- Conducting the annual evaluation of the performance of the Board of Directors, the members of the Board of Directors and the committees of the Board of Directors and submitting the performance evaluation report to the Board in this regard.</li> </ul>
<p><b>Highlights of the committee achievements during the year</b></p>	<ul style="list-style-type: none"> <li>-Adoption of the Nomination and Remuneration Committee Policy.</li> <li>-Ensure that the independent capacity for the independent Board member is not lacking for each of the Board members Mr. Khaled Faisal Al Oun and Mr. Abdulmohsen Ahmad Al Mutari</li> </ul>

<b>Audit Committee</b>	
<b>Date of the Committee formation and its duration</b>	15/8/2016 – membership tenure is the same tenure of their membership in the board of directors
<b>Number of the meetings held by the committee during the year</b>	2
<b>Committee composition</b>	Mr. Malek Maher Maarfi – Committee chairman Mr. Abdulmohsen Ahmad Al Mutair Mr. Ahmad Mahmoud Al Yehia
<b>Key tasks and responsibilities of the committee</b>	<ul style="list-style-type: none"> <li>- Review the quarterly and annual financial statements before presenting them to the Board of Directors and make the necessary recommendations thereon to the Board of Directors.</li> <li>- Recommend to the Board of Directors to appoint, reappoint or change the external auditor and assess their fees, after ensuring their independence and reviewing their letters of appointment.</li> <li>- Evaluating the adequacy of the internal control systems applied within the company and making the necessary recommendations thereon to the Board of Directors.</li> <li>- Technical supervision of the internal audit department in the company.</li> <li>-Review and approve the internal audit plans proposed by the internal auditor, as well as review the results of the internal audit reports and ensure that necessary</li> </ul>



	<p>action is taken in this respect.</p> <ul style="list-style-type: none"> <li>-Review the results of the reports of the regulatory bodies and ensure that the necessary procedures are taken.</li> <li>- Ensuring that the company compliance with relevant laws, policies, regulations and instructions..</li> </ul>
<p><b>Highlights of the committee achievements during the year</b></p>	<ul style="list-style-type: none"> <li>-Adoption of the internal audit policy.</li> <li>-Recommending outsourcing of the internal audit services.</li> <li>-Review the quarterly and annual financial statements</li> </ul>

<b>Risks Management Committee</b>	
<b>Date of the Committee formation and its duration</b>	15/8/2016 – membership tenure is the same tenure of their membership in the board of directors
<b>Number of the meetings held by the committee during the year</b>	2
<b>Committee composition</b>	Mr. Abdulrazak Zayed Al Dabian – Committee chairman  Mr. Ahmad Mahmoud Al Yehia  Mr. Khaled Faisal Al Oun
<b>Key tasks and responsibilities of the committee</b>	<ul style="list-style-type: none"> <li>- Prepare and review risk management strategies and policies before they are approved by the Board of Directors.</li> <li>- Ensuring the existence of adequate resources and systems for risk management.</li> <li>-Assisting the Board of Directors in identifying and assessing the acceptable level of risk in the Company.</li> <li>-Ensure that risk management personnel have a full understanding of the risks surrounding the company.</li> <li>-Ensure the independence of risk management personnel from the activities that result in the Company being exposed to risks.</li> <li>- Preparing periodic reports on the nature of the risks to which the Company is exposed.</li> <li>-Review issues raised by the Audit Committee that</li> </ul>

	may affect the Company's risk management.
<b>Highlights of the committee achievements during the year</b>	<p>-The policy update for risk management has been adopted.</p> <p>- Recommending the assignment of an external office to carry out the functions of the Risk Unit.</p>

- A brief on the method of implementing the requirements which permit the Board of Directors members to obtain accurate information and data in the right time:

The executive management provides full, accurate and timely information, data and documents to all members of the Board of Directors which enable them to carry out their duties and tasks efficiently and effectively. It also ensures that all periodic and non-periodic reports are prepared with a high degree of quality, comprehensiveness, consistency, conciseness and accuracy.

### **Third Rule**

#### **Selection of Competent Persons for the Membership of the Board of Directors and Executive Management**

- A brief about implementing the requirements of forming the Nominations and Remunerations Committee:

The Board of Directors has formed the Nominations and Remunerations Committee according to the requirements of the Capital Markets Authority in the aforesaid manner in the above clauses.

The Company has in place a policy adopted by the Board of Directors to grant remunerations comprising the identification of the remunerations of the chairman and members of the Board of Directors and identification of the various sectors of the remunerations offered to the personnel in line with the applicable and legal requirements.

- The remunerations offered to members of the Board of Directors and executive management;

Based on the requirements of the Capital Markets Authority, the duties and responsibilities of the Nomination and Remuneration Committee include preparing a detailed annual report on all bonuses awarded to the members of the Board of Directors and the Executive Management. Thus, the report was prepared as follows:

In accordance with the award policy approved by the Board of Directors, annual bonuses are related to the performance of the Company during the year, taking into account the following:

- The legal and regulatory requirements in force are taken into consideration when determining the remuneration of the Chairman and members of the Board of Directors and employees.
- Employee remunerations are divided into: the fixed remuneration segment (including salary, allowances and other incentives) and the variable remuneration

segment (linked to the employee's annual performance evaluation); and the end of service indemnity segment.

Details of the remunerations, benefits and benefits granted to the Chairman and members of the Board of Directors and Executive Management:

**Chairman and members of the Board of Directors:**

Since the Company did not realize profits during 2016, no bonuses were paid to the Chairman and members of the Board of Directors during 2016.

Executive Management:

Since the Company has not realize any profits during 2016, no bonuses have been paid to the Chief Executive Officer and Executive Management members.

Further, kindly be informed of the following description of the fixed remunerations segment and end of service indemnity:

Description	Amount
Fixed remuneration segment	Salaries 144,200
Variable remuneration segment	-
End of service indemnity segment	End of service – 13,450
Total	157,650

-There are no other remunerations offered directly or indirectly by the subsidiary companies.

-There are no substantial deviations from the remunerations policy adopted by the Board of Directors.

**Fourth Rule**

**Ensuring the Integrity of Financial Reports**

- Board of Directors and executive management undertakings for the soundness and integrity of the financial reports

### **Declaration and Undertaking (Safety and Integrity of Financial Statements)**

We, the chairman and members of the Board of Directors of Synergy Holding Company undertake and declare the accuracy and soundness of the financial statements furnished to the external auditor and that the financial reports of the Company were presented accurately and fairly according to the applicable international accounting standard in the State of Kuwait and adopted by the Authority. Further, they express the Company financial position as on 31 December 2016 pursuant to the information and reports we received from the executive management and auditors, and exerted the due diligence to verify the accuracy and soundness of such reports.

Name	Title	Signature
Mr. Nasser Bader Al Sharhan	Chairman	Signed
Mr. Abdulrazak Zayed Al Dabian	Deputy chairman	Signed
Mr Khaled Faisal Al Oun	Board member	Signed
Mr. Ahmad Mahmoud Al Yehia	Board member	Signed
Mr. Abdulmohsen Ahmad Al Mutair	Board member	Signed
Mr. Malek Maher Maarafi	Board member	Signed
Mr. Bassam Mohamed Taleb	Board member	Signed

- **A brief about the Audit Committee Composition**

The Board of Directors composed the Audit Committee according to the requirements of the Capital Markets Authority in the manner stated under the above clauses.

- In the event of existence of contradiction between the recommendations of the Audit Committee and the Board of Directors decisions, a statement shall be included which details and clarifies the recommendations and reason (s) for the Board of Directors' decision not to adhere with them:

- **Confirming the Independence and neutrality of the Company external auditor**

The external auditor of the Company shall be nominated on the recommendation of the Audit Committee to the Board of Directors, after ascertaining that he is independent from the Company and its Board of Directors and does not perform any additional work for the Company which is not included in the auditing and review work, which may affect neutrality or independence. He should be one of the auditors registered in the with the Capital Market Authority's register. At its annual meeting, the Ordinary General Assembly appoints the Company's external auditor on the proposal of the Board of Directors. The external auditor shall attend the meetings of the General Assembly and read the report prepared by him to the shareholders

### **Fifth Rule**

#### **Laying Down Proper Systems for Risk Management and Internal Control**

- **A brief description of the implementation of the requirements of forming an independent department/ office/unit for risk management:**

The Company has a Risk Management Unit which enjoys independence by being accountable directly to the Board of Directors in the Company organizational structure. The Company relies in the risk management process on contracting with a specialized external body to undertake such tasks. The external body identifies, measures, follows up and limits all types of risks to which the Company may be exposed according to the policies approved by the Board of Directors, prepares the necessary periodical reports in this respect and submits them to the concerned committees and the Board of Directors.

- **A brief about the implementation of the requirements of forming the Risk Management Committee:**

The Board of Directors has formed the Risk Management Committee according to the requirements of the Capital Markets Authority in the aforesaid manner.

- **A brief description of the control systems and internal control**

The Company adopted a set of internal control and control systems covering all activities of the Company through the preparation and adoption of a set of structures, policies and procedures aimed at determining the powers and responsibilities and separation of tasks.

The Board of Directors works to follow up the internal control systems through the reports submitted by the committees and the supervisory functions in the company.

In addition, an independent audit office is assigned to carry out an evaluation and review of the internal control systems and to prepare a report thereon. A copy of this report is provided to the Audit Committee and the Board of Directors.

- **A brief statement on the implementation of the independent internal audit department/ office/unit**

The Company has an independent Internal Audit Unit through its subordination to the Audit Committee and following the Board of Directors in the organizational structure of the Company. The Company relies on contracting with a specialized third party to carry out these tasks. The external entity reviews and evaluates the internal control systems applied in the Company In accordance with the policies adopted by the Board of Directors, and to prepare the necessary periodic reports in this regard and submit them to the relevant committees and the Board of Directors.

An independent audit office, other than the audit office assigned to carry out the evaluation and review of the internal control systems, is mandated to audit and evaluate the performance of the internal audit on a regular basis every three years. A copy of this report is provided to the Audit Committee and the Board of Directors.



## **Sixth Rule**

### **Promoting Professional Conduct and Ethical Values**

- **A brief on the code of work comprising professional conduct and ethical values criteria and determinants:**

The Company has a business code approved by the Board of Directors which includes standards and determinants that consolidate the concepts, values and ethical principles of the Company, members of the Board of Directors, executive management and all employees.

- **Summary of policies and mechanisms on reducing conflicts of interest:**

The Company has a policy on reducing conflicts of interest approved by the Board of Directors, which include examples of conflicts of interest and how to address them for Board members and executive management.

## **Seventh Rule**

### **Accurate Disclosure and Transparency in the Right Time**

- **A summary on the implementation of the mechanisms of accurate and transparent presentation and disclosure which outline the aspects, fields and features of disclosure**

The Company has a policy of disclosure and transparency towards shareholders, potential investors and other stakeholders approved by the Board of Directors. It complies with the provisions of the Capital Markets Authority Law, its Executive Regulations, the Authority's instructions and best practices in this regard.

- **A brief on the application of the disclosure requirements of Board members and executive management:**

The Company keeps a record of the disclosures of the members of the Board of Directors and the Executive Management, containing the information and data required to be disclosed in accordance with the requirements of the laws, regulations and policies of the Company in this regard. This record shall be available to the interested parties for inspection during the normal working hours of the Company.

- **A brief statement on the application of the requirements of the formation of the Investor Affairs Unit:**

The Investor Affairs Unit of the Company has been established with the appropriate independence. It is responsible for providing the necessary information, data and reports to shareholders, potential investors and other stakeholders in a timely manner and through the applicable methods and means of disclosure, including the Company's website.

- **A brief on how to develop IT infrastructure and rely on it heavily for the disclosures process:**

The Company is keen to rely on information technology to communicate with shareholders, potential investors and other stakeholders by creating a special section on the Company's corporate governance website through which information and data are presented.

## **Eighth Rule**

### **Observing Shareholders' Rights**

- **Summary of the implementation of the requirements for the identification and protection of the general rights of shareholders, in order to ensure equity and equality among all shareholders:**

The Company's Articles of Association and its internal policies and procedures guarantee that all shareholders will exercise their rights to achieve justice and equality in a way that does not conflict with the laws, regulations, resolutions and instructions in force. The Company is also keen to treat all shareholders equally and without discrimination. Among the most prominent general rights of shareholders are the following:

- Disposal of shares such as registration and entry of ownership, transfer and assignment of ownership.
  - Receipt of the share of dividends.
  - Receiving a share of the Company's assets in case of liquidation.
  - Obtaining timely information and data on the Company's activity.
  - Participation in the meetings of the General Assembly and voting on its decision.
  - Monitor the performance of the Company in general.
  - Accountability of members of the Board of Directors and executive management in the event of failure to perform the tasks entrusted to them.
- **A summary on the establishment of a special register to be kept with the clearing agency, as part of the requirements for continuous follow-up of shareholder data:**

In accordance with the agreement signed between the Company and Kuwait Clearing Company, the register of shareholders shall be kept at the Clearing House in which the information and particulars of the shareholders shall be recorded. The Company shall keep a copy of this register and the information and data contained therein shall be treated according to the highest degree of protection and confidentiality. This record shall be available to the concerned parties for review during the normal working hours of the Company.

- **How to encourage shareholders to participate and vote in the general assembly meetings of the Company:**

The Company encourages the shareholders to attend the meetings of the General Assembly of the Company, participate in it and vote on its decisions. The Company will announce and disclose the invitation to the meeting of the General Assembly including the agenda, time and venue of the meeting, within the prescribed dates and through the specified means and mechanisms.

Further, the Company provides shareholders long before the General Assembly with sufficient time to obtain information and data related to the agenda items. The Company also allows the shareholders to delegate others to attend the General Assembly meeting and to vote on its decisions by virtue of a special power of attorney or an authorization prepared by the Company for this purpose. The Company shall not charge any fees for the attendance of the shareholders in the meetings of the General Assembly.

## **Ninth Rule**

### **Recognizing the Role of Stakeholders**

- **A brief about the systems and policies that protect and recognize the rights of stakeholders:**

The Company's Board of Directors has adopted a policy to protect the rights of stakeholders, including rules and procedures that guarantee the protection and recognition of the rights of stakeholders and provide them with compensation in the event of any violation of their rights, in accordance with applicable laws in the State of Kuwait such as the Companies Law and the Labor Law in addition to the contracts concluded between the Company and the stakeholders and any additional undertakings made by the Company towards them.

- **How to encourage stakeholders to participate in the follow-up of the Company's various activities:**

The Company is keen to benefit from the contributions of stakeholders and encourage them to participate in the follow-up activities in accordance with the realization of their interests, where the Company provides the information, data and reports necessary to stakeholders in a timely manner and through the methods and means of disclosure, including the website of the Company, and the Investor Affairs as mentioned above. It also allows stakeholders to report to the Board any improper practices to which they are exposed by the Company, while providing appropriate confidentiality and protection to parties reporting in good faith on such practices.

## **Tenth Rule**

### **Promoting and Enhancing Performance**

- **A summary of the implementation of the requirements for the development of mechanisms that will allow the members of the Board of Directors and Executive Management to receive ongoing training programs and courses:**

An orientation program is provided to the new members of the Board of Directors and executive management about the Company activities, which includes providing them with the Company Articles of Association, strategy, organizational structure, annual report, financial statements, charters of work of the Board and committees, adopted policies as well as any other information, data, reports or documents.

- **A summary on the method of evaluating the overall performance of the Board of Directors and the performance of each member of the Board of Directors and the executive management:**

An annual self-assessment is conducted on of the Board of Directors as a whole and the contribution of each member of the Board, each of its committees and executive management according to a set of objective performance indicators approved by the Board of Directors. This evaluation is presented to the Board for discussion and adoption of the necessary recommendations in this regard which aim at the end at strengthen the capabilities of the Board, its members and executive management in all areas of the Company's work.

- **About the Board's efforts to create organizational values for its employees through achieving strategic objectives and improving performance rates:**

The Board of Directors is keen to create the organizational values (value creation) among the employees in the Company by achieving the strategic objectives and improving the performance rates and abide by the relevant laws, regulations, resolutions and instructions, which helps motivate employees to work continuously to maintain the financial integrity of the company.

## **Eleventh Rule**

### **Focusing on the significance of social responsibility**

- **Establish equilibrium between the objectives of the Company, objectives of the community**

The Board of Directors of the Company adopted a social responsibility policy aimed at linking the objectives of the Company to the objectives that the society seeks to achieve, taking into account the social and economic aspects of the society in terms of job opportunities, project support, awareness programs, charitable initiatives, health and environmental protection.

- **A brief about the programs and mechanisms used to help highlight the Company's efforts in the field of social work:**

The Company has developed a series of programs that ensure the continuity of the implementation of the social responsibility policy. The Company works to contribute to the social and economic activities on a continuous basis (charitable, cultural, educational, health, environmental) through the adoption of an annual plan for all contributions and functions through the year compared with other companies in the same sector, and the adoption of an annual provision by the Board of Directors and General Assembly for the execution of this plan, supervising its implementation and disclosure of the same in the Company annual report.