

## CORPORATE GOVERNANCE

### POLICY

Sound corporate governance principles are the foundation of trust for every Company. These principles are critical in maintaining the reputation the Company has built up over the last twenty three years. Bahrain Duty Free Shop is committed to aspire to the highest standards of corporate governance, which as a key factor ensures fairness to all stakeholders of the Company. The Board's adherence to best practice in corporate governance is underlined by various principles such as transparency, integrity, independence, accountability, responsibility, fairness and social responsibility. The Board has adopted a Board of Directors Charter, together with the Company's Memorandum and Articles of Association as well as the Charters of Board Committees that provide the authority and practices for corporate governance at Bahrain Duty Free.

### OWNERSHIP STRUCTURE

Share Ownership by Nationality			
Nationality	No. of shareholders	Shares	% to Equity
Bahraini	550	99,775,658	93.3
GCC	22	6,608,650	6.2
Other	14	506,712	0.5
<b>Total</b>	<b>586</b>	<b>106,891,020</b>	<b>100.0</b>

#### Government Owned

Name	Shares	% to Equity
Social Insurance Organization – Pension	708,202	0.66
Social Insurance Organization – GOSI	605,432	0.57

Shareholders owning more than 5%

Following are the names and nationalities of the major equity holders (defined as a holding in excess of 5% of the issued and fully paid capital) and the number of equity shares held:

Name	Nationality	Shares	(%)
Esterad Investment Co. BSC	Bahraini	9,854,078	9.22
Global Express	Bahraini	8,650,980	8.09
Rouben's Stores	Bahraini	6,960,566	6.51
Farouk Yousuf Almoayyed	Bahraini	5,393,334	5.05

#### Ownership Categories

Categories*	Number of shares	Shareholders	% total issued shares
Less than 1 %	24,459,398	555	22.88
1 % up to less than 5 %	51,572,664	27	48.25
5 % up to less than 10 %	30,858,958	4	28.87
<b>Total</b>	<b>106,891,020</b>	<b>586</b>	<b>100.00</b>

### BOARD STRUCTURE

The Board has the final responsibility for the overall conduct of the Company's business, providing direction by exercising objective judgement on all matters independent from the Management. The Board of Directors is accountable to the shareholders for the code of conduct of the business and also for ensuring the effectiveness of and reporting on the corporate governance framework in place. The Board comprises of ten Directors. There are two executive Directors, eight non-executive Directors and two Directors who are independent.

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Board Member	Position	Executive/Non Executive, Independent / Non-Independent
Farouk Yousuf Almoayyed	Chairman	Non-Executive / Non-Independent
Abdulla Buhindi	Managing Director	Executive / Non-Independent
Nabeel Al Zain	Director	Non-Executive / Non-Independent
Jawad Al Hawaj	Director	Non-Executive / Non-Independent
Mohammed Al Khan	Director	Executive / Non-Independent
Ghassan Al Sabbagh	Director	Non-Executive / Independent
Jalal Mohammed Jalal	Director	Non-Executive / Non-Independent
Mazen Abdulkarim	Director	Non-Executive / Non-Independent
Shaikh Mohamed Al Khalifa	Director	Non-Executive / Non-Independent
Jassim Mohd. Al Shaikh	Director	Non-Executive / Independent

### DIRECTORSHIPS ON OTHER BOARDS

Board Member	Position held	Company
Farouk Yousuf Almoayyed	Chairman	Y.K. Almoayyed & Sons BSC, YK Almoayyed & Sons Property WLL, Almoayyed International Group
	Chairman	Ashrafs, Gulf Hotel Group, Ahlia University, Bahrain National Holding
	Chairman	National Finance House, National Bank of Bahrain
	Director	Investcorp
Abdulla Buhindi	Chairman	National Investment Company, Buhindi Group, Aer Rianta International Middle East
	Chairman	Banz Group, Bahrain Kuwait Insurance Co., BEMCO, BMMI, United Paper Industries
	Chairman	Copyright Company WLL, Lona Real Estate Development, Banadar Hotel Company
	Director	Bahrain Gulf Distribution Co., Oasis Capital BSC (c)
	Director	Arab Insurance Group (Beirut), Iqarat Lubnan (Beirut)
Mohamed Al Khan	Managing Director	Bahrain International Retail & Development Co. (BIRD)
Jalal Mohammed Jalal	Chairman	Bahrain Airport Services, Gulf Business Machines, Bahrain Business Machines
	Managing Director	Awal Printing Press, Bahrain International Airport Development Company WLL
	Director	Awal Readymix Concrete Co., BANZ Company, Aer Rianta International Middle East
	Director	Bahrain Tourism Company, Bahrain Cinema Company
Nabeel Al Zain	Director	Al Zain Trading Company WLL
Mazen Abdulkarim	Director	Esterad Investment Company, Bahrain International Retail & Development Company
Jawad Al Hawaj	Chairman	Bahrain International Retail & Development Company
Ghassan Al Sabbagh	Director	Bahrain International Retail & Development Company
Shaikh Mohamed Al Khalifa	N/A	-
Jassim Mohd. Al Shaikh	N/A	-

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### BOARD MANDATE

The Board of Directors provides leadership and the strategy that directs the on-going activities of the Company. The principle responsibilities of the Board, as set out in its charter, are as follows:

- Chartering the direction and strategy of the Company.
- Monitoring compliance with all related laws and regulations.
- Ensure regulatory compliance and reviewing the adequacy and integrity of internal controls.
- Review and approve the Financial Statements of the Company.
- Approval of the annual Business Plan.
- Performance evaluation and succession planning of Directors and executive management.
- Approving the financing and borrowings of the Company.
- Recommending appointment of Auditors at the annual general meeting.
- Appointment of Sub Committees.
- Approve policies and procedures.
- Approving Compensating and Benefits Policy.
- Approving the establishment of new banking relationships.
- Approving major financial investments.

### BOARD MEETINGS

As per the Board Charter, the Directors are required to meet at least four times in a given financial year to discharge its responsibilities effectively. A meeting of the Board of Directors is deemed valid if attended by more than half of the members in person. There were six Board meetings in 2013. Director attendance is shown below.

Board Member	21-Jan	17-Feb	12-Mar	14-May	6-Oct	10-Nov
Farouk Yousuf Almoayyed	✓	✓	✓	✓	✓	✓
Abdulla Buhindi	✓	✓	✓	✓	✓	✓
Nabeel Al Zain	✓	✓	✓		✓	
Jawad Al Hawaj	✓	✓	✓	✓	✓	✓
Mohammed Al Khan	✓	✓	✓	✓	✓	✓
Ghassan Al Sabbagh	✓	✓	✓	✓	✓	✓
Jalal Mohammed Jalal		✓	✓	✓		✓
Mazen Abdulkarim	✓	✓	✓	✓		✓
Shaikh Mohamed Al Khalifa		✓	✓	✓	✓	
Jassim Mohd. Al Shaikh	✓	✓	✓	✓		✓

### ELECTION OF DIRECTORS

There are formal and transparent procedures for the appointment of new Directors to the Board. Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board. The current Directors of the Company are appointed by the general Shareholders meeting from among candidates proposed by the Board.

### BOARD TERMS

The Board terms run for three years. The current term is for the period 2013 to 2015. With the exception of Ghassan Al Sabbagh who is appointed by the Government and Mazen Abdulkarim who is appointed by Esterad Investment Co., all other Directors were appointed and re-elected to the Board effective January 1, 2013 at the Annual General Meeting of 2013.

### DIRECTOR APPOINTMENT LETTER

As a member of the Board, each Director has signed a formal written appointment letter which covers among other things, the Director's duties and responsibilities in serving on the Board, the terms and conditions of their directorship, the annual remuneration and entitlement to reimbursement of expenses and access to independent professional advice when needed.

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### DIRECTOR'S INDUCTION & TRAINING

The Director's Board Charter recommends formal and tailored Director's induction. The Secretary to the Board shall annually include briefing sessions on current developments in areas of corporate governance, industry sector, accounting standards etc., for all Directors. Newly appointed Directors undergo an induction program covering, amongst other things:

- The business of the Company.
- Briefings and presentations from executive management.
- Opportunities to visit business operations.
- Their legal and regulatory responsibilities as Directors.

Throughout their period in office, all Directors are continually updated on the Company's business and regulatory environment.

### TERMINATION OF DIRECTORSHIP

Termination of Directorship is upon expiry of the term upon which he/she needs to be subject to re-election. Termination can also take effect if any Director is in breach of the applicable governing laws and requirements of the articles of association.

### PERFORMANCE EVALUATION

Performance evaluation of the Board, Board Committees and executive management is vital to ensure that the strategy and goals of the Company are achieved. Performance management appraisal was carried out in 2013 on the Board, Board Committees and executive management.

### DIRECTORS OWNERSHIP OF SHARES

Board Member	No. of Shares	% to Equity
Farouk Yousuf Almoayyed	5,393,334	5.05%
Abdulla Buhindi	2,063,917	1.93%
Shaikh Mohamed bin Ali Bin Mohammed Al Khalifa	1,603,361	1.50%
Mohammed Al Khan	534,453	0.50%
Jassim Mohd. Al Shaikh	505,785	0.47%
Jalal Mohamed Jalal	413,664	0.39%
Ghassan Al Sabbagh	371,653	0.35%
Mazen Abdulkarim	51,069	0.05%
Nabeel Al Zain	6,217	0.01%
<b>Total Director Shares</b>	<b>10,943,453</b>	<b>10.24%</b>
<b>Total Shares</b>	<b>106,891,020</b>	<b>100.00%</b>

No Directors traded in shares in 2013.

### REMUNERATION POLICY DIRECTORS

The Company follows a transparent process with regards to the remuneration policy for all members of the Board. The remuneration for services rendered is based principally on performance review. In addition, Directors are entitled to out of pocket expenses, accommodation and travelling cost incurred during the term of their appointment. In 2013 Director fees totalling BD 168,000 were paid. Sitting fees for the Audit Committee were paid also in 2013 and this amounted to BD 4,000.

### MANAGEMENT REMUNERATION

The remuneration principles of the Company are based on the following:

- Attract and retain human resources with ability, talent, skill and knowledge to deliver.
- Align the reward with the return of the shareholders.
- Implement incentive framework which challenges employees to deliver sustained high quality consistent performance at all times.

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In addition to this, the Company has also a framework in place to monitor and evaluate the performance of the executive management and the employees of the Company in line with market trends and performance linked bonus is paid on the basis of their individual performance which is evaluated at the end of the year.

### MANAGEMENT OWNERSHIP OF SHARES

No members of the senior executive management team own any shares in the Company.

### BUSINESS CODE OF ETHICS

All Directors and employees shall act ethically at all times and adhere to the Company's code of conduct. Where a potential conflict of interest arises for a Director, the Director shall promptly inform the Board for clarification and resolution as necessary. Such declarations shall be duly minuted. All Directors shall excuse themselves from any discussions or decision affecting their business interests.

### COMMITTEES

Consistent with Industry best practice, the Board has an established Audit Committee and an Investment Committee. In 2013, the Nomination, Remuneration and Corporate Governance Committee was established.

#### AUDIT COMMITTEE

The Company's internal audit function reports to the Audit Committee. The Audit Committee's primary duties and responsibilities are as follows:

- Ensure the integrity of the Company's Financial Statements.
- Ensure a sound financial reporting process.
- Internal Audit and Risk Management.
- Compliance with internal and external regulatory frameworks.
- The appointment of internal auditors.
- Act as a liaison between the internal auditors, external auditors and the Board.

As per the charter of the Audit Committee, the committee are required to meet at least four times in a given financial year to discharge its responsibilities effectively. In 2013, the Audit Committee met four times at the Company's Headquarters. No issues deemed significant arose during 2013. Mazen Abdulkarim resigned from the Audit Committee on 17th February, 2013.

Audit Committee	03-Feb	23-Apr	4-Aug	3-Nov
Jawad Al Hawaj	✓	✓	✓	✓
Mohammed Al Khan	✓	✓	✓	✓
Ghassan Al Sabbagh	✓	✓	✓	✓
Nabeel Al Zain	✓		✓	✓
Mazen Abdulkarim	✓			

#### INVESTMENT COMMITTEE

The investment committee is responsible for managing the investment portfolio and surplus funds ensuring optimum yield returns by investing in a controlled and managed portfolio. The primary duties and responsibilities are as follows:

- Formulate the investment policy and guidelines subject to Board approval.
- Review investment policy every three years and update as appropriate.
- Review and monitor the investment portfolio.
- Approval of fund managers, mutual funds, investments/funds, brokers and custodian firms.
- Identify investment opportunities that will return sufficient yields to maximize shareholder equity.
- Engage suitably qualified members from Management to monitor the investment portfolio.

#### Meetings held in 2013

Investment Committee	17-Feb	14-May	10-Nov
Farouk Yousuf Almoayyed	✓	✓	✓
Abdulla Buhindi	✓	✓	✓
Mazen Abdulkarim	✓	✓	✓
Shaikh Mohamed Al Khalifa	✓	✓	

Note: Mazen Abdulkarim joined the Investment Committee on 17th February, 2013.

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### NOMINATION, REMUNERATION & CORPORATE GOVERNANCE COMMITTEE

NRGC Committee	6-Oct
Farouk Yousuf Almoayyed	✓
Abdulla Buhindi	✓
Jalal Mohammed Jalal	✓

This new Committee was established in the second quarter of 2013 and met once in October. The committee will meet as a minimum once a year or more as deemed necessary.

### AUDITORS

The Audit Committee reviews the appointment of the external auditors, as well as their relationship with the Company, including monitoring the Company's use of the Auditors for non-audit services. The Committee also approves the appointment of the internal auditors. Fees paid in 2013 were as follows:

External Audit	BD 22,900
Internal Audit	BD 18,650
Non-Audit Fees	BD 9,075

### CONFLICT OF INTERESTS

Directors have a duty to avoid circumstances which may result in interests that conflict with those of the Company, unless the conflict is duly approved by the Board. It is the obligation of the Board to assess, determine and authorize any such potential conflicts, taking all circumstances into account. This includes potential conflicts that may arise when a Director takes up a position with another Company or enters into transactions or agreements in respect of which a Director or executive officer has a material interest. During the year 2013, no issues of conflict arose and no Director of the Board abstained from voting due to this reason.

### COMMUNICATION WITH SHAREHOLDERS

To encourage transparency, the Board strives to maintain an open communication channel with its investors and shareholders at all times. The Board is committed to communicate its strategy and activities clearly and maintains an active dialogue with stakeholders through planned activities. The main communication channels includes the annual report, quarterly publications of financial results, a corporate website and announcements in the local media where necessary.

### CODE OF CONDUCT AND WHISTLE BLOWING POLICY

The Board has adopted a formal code of conduct and Whistle Blowing Policy that applies to Directors and all employees of the Company to guide them in their conduct and promote ethical behaviour, honesty and integrity in their normal daily activities in order to safeguard and uphold the reputation of the Company at all times. The code of conduct and Whistle Blowing Policies have been developed and implemented in accordance with the applicable regulations and leading industry practice.

### RELATED PARTY TRANSACTIONS

It is the policy of the Company that all related party transactions are done on an arm's length basis in the ordinary course of business and are approved by the management of the Company. As a public Company, the Directors, management and all employees are eligible to trade in the shares of the Company and are monitored by the relevant authority in the Company to ensure that no trade is made with the material information still not made public.

### INTERNAL CONTROLS

The Board has overall responsibility to ensure that management maintains an effective system of internal control. There are clear processes for monitoring internal control and reporting any significant control failings or weaknesses together with corrective action solutions. Management is required to apply judgement in evaluating risks, the likelihood of the risks materializing and the ability to reduce the exposure and impact on the business. Throughout 2013, and to date, the Company has operated a system of internal control which provides reasonable assurance of effective and efficient operations covering all controls including financial and operational controls and compliance with laws and regulations. The Board regularly reviews these processes through its Audit Committee.

### CORPORATE SOCIAL RESPONSIBILITY

Bahrain Duty Free is committed to its role as a responsible corporate citizen. It maintains a charity and community welfare account and in 2013 contributions to worthy causes were made.