

EGYPT CODE OF CORPORATE GOVERNANCE
Guidelines and Standards

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Introduction

This set of guidelines relates to principles of corporate governance in Egypt. The phrase “principles of corporate governance” is used to describe the rules, regulations, and procedures that achieve the best protection of and balance between the interests of corporate managers, shareholders, and other stakeholders.

These rules should be considered an addition to the corporate-related provisions stated under various laws - especially the Law on Shareholding Joint Stock Companies, Partnerships, and Limited Liability Companies issued by virtue of Law #159/1981; the Capital Market Law issued by virtue of Law #95/1992 and the executive regulations and decrees regarding their implementation. Yet, what makes these rules unique and different from all others stated under the abovementioned laws is that the rules governing corporate governance are neither mandatory nor legally binding; rather, they promote and regulate responsible and transparent behavior in managing corporations according to international best practices and means that strike equilibrium between various party interests. These rules also have been drafted in a manner that provides an ample explanation of the provisions. The explanation of the provisions will not use the concise legislative phrasing style generally associated with legal documents.

Egyptian corporations and their shareholders should seek to abide by these rules and apply them because the resulting benefits will be enjoyed not only by the complying corporations but will also have a positive effect on the general investment environment. Further, a major responsibility falls upon corporate external auditors and legal advisors to spur the corporate directors to abide by these rules and to observe the extent to which they are achieved. Moreover, banks, other financing institutions, and credit rating institutions should take the articles listed in the code into consideration when doing business with or evaluating corporations to determine the extent to which the provisions and content of these rules are upheld.

It should be expected that all those in charge of managing corporations, financial institutions, professional societies, shareholders groups, and directors implement and promote the provisions of this code; they should be expected to consider the implementation of these provisions an indicator of success.

1. Scope of Implementation

1.1. These guidelines are to be primarily implemented in joint-stock companies listed on the stock exchange, especially those undergoing active trading operations, and financial institutions in the form of joint stock companies; for those are the ones with ownership disbursed over numerous shareholders and necessitate a definition of the relation between ownership and management or are the ones that directly affect a vast majority. It is also applicable to companies that use the banking systems as a major source of financing – in this case compliance with corporate governance standards comes to support the rights of creditors. The rules have been drafted in such a manner so as to apply to these corporations within the framework of the provisions of the Law on Joint Stock Companies, Partnerships and Limited Liability Companies (#159/1981), the Capital Market Law (#95/1992), as well as the rules governing the listing, ongoing listing and de-listing of financial securities from the Cairo and Alexandria Stock Exchange (CASE) and other decrees and laws to be mentioned throughout this document. Thus, any reference to the terms “corporation” or “corporations” in the guidelines and standards shall indicate the corporations listed in the CASE, in addition to the financial institutions in the form of joint stock companies even if not listed in CASE, specifically: banks, insurance companies, real estate financing companies, finance leasing houses, and corporations working in the field of securities, as well as companies that obtain major financing from the banking sector.

1.2. Due to the general importance of the standards governing corporate governance for all corporations, other forms of corporations may be considered candidates for listing on the CASE or offered for public trading, thus indicating that the corporate governance standards listed in this document should be adopted in some form. These standards may be interpreted in a more abridged manner the extent to which they may be implemented in closely-controlled joint stock companies, followed by limited liability companies and, finally, partnerships. Although this method does not fit under the scope of standards governing corporate governance in other countries where their scope is limited to financial institutions and joint stock companies listed on the stock exchange, it is significant in Egypt: out of the total number of Egyptian joint stock companies, no more than 2.5% are listed in the CASE, further a limited number of those listed undergo active circulation.

1.3. From another point of view, the development of the Egyptian economy, especially the stock exchange, in recent years indicates that numerous closely-controlled joint stock companies will find their way to being listed on CASE. Thus, shareholders and management of these companies should adopt and adhere to the standards governing corporate governance as a preparatory phase to being listed, as proper qualification for public subscription, or for stock listing. As such, shareholders, corporations, creditors, and corporation staff in general bear interest in stimulating and monitoring the compliance of all forms of corporations to these standards to the greatest extent possible.

1.4. The above relates to the understanding that implementing corporate governance in the right manner is not only limited to respecting a set of rules and interpreting it literally in a restricted manner, but is also a culture and way of managing the relationship between owners of the company, its directors, and its stakeholders. Hence the interest of the whole community becomes more achievable when more people apply the code provisions.

2. General Assembly

- 2.1. The general assembly is composed of all corporation shareholders pro-rata to the percentage of shares held by each. Although the articles of association of a corporation may stipulate that no shareholders possessing less than a specific percentage of shares may attend the general assembly meeting, such a provision should be deemed an exception to the rule that entitles all shareholders to attend the meeting unless their number exceeds the capacity by which the corporation can provide a meeting place, in which case the stipulation may be resorted to; it should also not be a means to exclude and overrule small shareholders.
- 2.2. Shareholders should be encouraged to attend the corporation's general assembly meeting; moreover, the meeting date and place should be set in a manner facilitating and encouraging their attendance.
- 2.3. Each subject matter on the agenda of the ordinary or extraordinary general meeting is to be accompanied by an adequate description in a manner enabling the shareholders to make their decisions based upon the information furnished to them. Furnishing of the information should be for the purpose of enabling shareholders to make their decisions in a sound and well-studied manner and not just as a completion of meeting formalities.
- 2.4. The general assembly is managed in a manner allowing full and adequate disclosure for information related to all items in the agenda to allow shareholders to express their opinions based on adequate and full information.
- 2.5. Voting on general assembly decisions needs to be registered in absolute accuracy. In case of disputes over the representation of some votes at the general assembly, voting on the validity or annulment of the disputed votes should be made and presented later to the concerned administrative or judicial party; meaning that the proceedings of the general assembly should continue in any case.

3. Board of Directors (BOD)

3.1. The BOD of a joint stock company assumes the role of managing its affairs based upon authorization delegated by the general assembly; as a result, the final responsibility for the company remains under the board even if it constitutes committees or authorizes other bodies or individuals to undertake its operations.

3.2. Despite the fact that the BOD of a corporation is composed of representatives nominated from among various groups of shareholders, whenever a member of the board is designated, he/she must consider him/herself as a representative of all the shareholders and obliged to act in the interest of the corporation and all shareholders and not just that of the group being represented or having voted for the designation.

3.3. Egyptian laws stipulate that the BOD of a corporation shall be nominated for the purpose of representing the shareholders and the formation of the board should be representative of capital distribution. However, the rules governing voting enable the general assembly majority group to designate the entire board via voting for each nominee separately; accordingly, corporate governance necessitates that an accumulative system be adopted, in voting for BOD members, or capital distribution should be considered in any other way, so that the final result can be a reflection of the proportional representation of shareholders on the board. A summarized curriculum vitae for each BOD nominee should be submitted to the shareholders upon being called to vote for the board.

3.4. The BOD should include a majority of non-executive members with an appropriate mix of skills, technical, or analytical experience that is of benefit to the board or corporation. Under all circumstances, upon nomination of the non-executive board members, it must be observed that the board member will be capable of allotting sufficient time and attention to his board directorship and that it will not represent any conflict with his/her other interests.

3.5. Sufficient information and data on the corporation should be made available to new BOD members upon their designation to familiarize them with all its general aspects, points of risks, organizational structure, financial position, and everything that will enable them to assume their responsibility to the fullest extent.

3.6. The BOD undertakes the designation of the chairperson and managing director; it is preferred that the two posts not be held by the same person. Should joining the posts be necessary, its reasons should be clarified in the corporation's annual report; further, a non-executive vice chairperson should be appointed.

3.7. The BOD should closely monitor at all times the general status of the corporation and must not entrust any other person with that responsibility.

3.8. The board should lay down the mechanisms and systems ensuring corporate respect for the laws and regulations in force and compliance with the furnishing of essential information to

shareholders, creditors, and other stakeholders, which should all under any circumstance, be based on objective standards.

3.9. Any entrustment made by the BOD of the corporation, be it to one of its members or to any other, should be specified in title and term of validity and should include a date on which attained results are to be presented to the board. The board should avoid delegating its authority in any manner, as this leads to weakening of its role in the organization.

3.10. The BOD members are entitled to all information and data on the corporation at the time and in the form specified by them.

3.11. The BOD members may seek an external advisory opinion on any corporation matter at its own expense provided that the majority of members approve such an act; this will be subject to the observance of the provisions averting conflict of interests stated under these provisions.

3.12. The corporation should reward its executive managers with financial remuneration in a manner allowing for the attraction and maintenance of the best qualified elements in the market. This is to be determined by forming a committee comprising mostly or wholly of the non-executive BOD members who will have the authority of proposing the executive member's financial remuneration and negotiating it with them in consultancy with the managing director; the final decision will however be of the non-executive board members. Names of the committee members will be revealed in the corporation's annual report; moreover, the head of the committee should attend the annual general assembly to answer any questions posed by shareholders on that matter.

3.13. Remuneration received by an executive BOD member should be disclosed including: remuneration, allowances, real privileges, stock options, and any other element of financial nature. Elements related to the performance of the corporation are always preferred to represent the significant portion of the total financial remuneration so that the executive board member will always be stimulated to improve his/her performance.

3.14. As for stock options in particular, consideration must be given not to incite the board on taking decisions achieving only short-run corporate interests, but also to be related with considerations that improve the corporate performance in the medium and long term.

3.15. A term of contract of an executive BOD member should not exceed three years unless for a clear and defined purpose that is to be revealed in the corporation's general assembly.

3.16. The abovementioned committee referred to in Item 3.12 should recommend the remuneration received by the non-executive BOD members provided that it is submitted to the general assembly for approval. The remuneration paid to non-executive board members should not significantly differ from one to another except if it is against specific tasks and work assigned to them or against their membership in specific committees.

3.17. The board should convene no less than once every three months. The number of conventions and the names of the members who failed to attend the meetings of the board or its sub-committees will be revealed in the corporation's annual report. Invitation to the meetings should be done on dates, at places and according to arrangements that can allow for the members to attend; moreover, all information on any matter that will be submitted to the board or any decision that should be made available to all Board members in advance of its meeting, unless there is a specific case requiring speedy submission. In this instance, only executive members or managers capable of amply explaining the matter and responding to member questions are to attend the meeting. It is preferred that ballot-voting should only be exercised on urgent matters requiring unanimous approval when regular meetings cannot be held.

3.18. The non-executive BOD members may meet with the managers of the corporation for consultation on any of its affairs with or without the attendance of the executive members, provided that they together coordinate the date of meeting and that they be informed on what will be negotiated.

3.19. The board should regularly review the corporation's internal rules of procedures to ensure their suitability and efficiency. The board is entitled to obtain all the financial and non-financial information and reports on the performance of the corporation.

3.20. The board may constitute committees comprising BOD or other members to perform particular tasks and for specific periods; these committees should be considered as means of assisting the board in performing its functions and not as a mean for divesting its responsibilities or transferring them to another body.

3.21. The process of forming the committees affiliated with the BOD should be done according to general procedures established by the board, which should include: specifying the function of the committee, its term of operation, authorities granted to it during such term and means of its monitoring via the board. Unless otherwise specified under the decision to constitute the committee, the committee should notify the board with absolute transparency of what functions it undertakes, what results it culminates and the decisions it makes. The Board is to periodically monitor the operation of the committees to ensure that it is undertaking the assigned tasks.

3.22. The Board is to constitute at minimum an audit committee consisting of a number of non-executive board members. The audit committee shall be responsible for the oversight of the internal audit department and the corporation's procedures.

3.23. It is recommended that the non-executive board members participate in the committees formed by the board and that one of them acts as its chairman. Committees may seek the assistance of external consultants in the performance of their functions at the expense of the corporation. The corporation's annual report should include a brief presentation on each committee's constitution, number of meetings, assigned functions, and accomplishments; moreover, committee heads have to attend the corporation's general assembly meeting.

3.24. The corporation's board of directors should have a corporate secretary designated upon their approval to manage all board records, minutes, and books; as well as to attend all its meetings unless otherwise requested as regards a particular subject matter. Members are entitled to communicate with the secretary during inter-meeting intervals. Authorities necessary for the secretary to assume relevant tasks must be approved by the board. It is preferred that the functions of the Secretary not be limited to their traditional understanding set forth under the Egyptian law as to simply attending assembly meetings and taking minutes, but rather extend to being an ongoing link between board members, and board members and management; in addition to being a source for any requested information.

3.25. The BOD is generally responsible for the corporation's risk management in accordance with the nature of its activity, size and market in which it operates; moreover, the board assumes the responsibility of laying down a strategy for identifying threats faced by the corporation, means of dealing with them and the degree of operational risk exercised, all of which should be clearly presented to the shareholders.

3.26 The board of directors should issue an annual report to be presented to the general assembly. The annual report is in addition to other documentations required by law. The annual report should specifically include:

- An overview on corporation's activities and its financial position.
- An overview on the corporation's next year's activities.
- Activities and results of the corporation's subsidiaries, if any.
- A briefing on the changes in the main capital structure of the corporation
- Degree of compliance with the guidelines and standards of the Egyptian Code of Corporate Governance.

4. Internal Audit Department

- 4.1. The corporation should have a sound system for internal audits that is established in a cooperative effort between the board of directors and the corporation management. Failure to do so will require the board to explain to the annual general assembly reasons for that failure. An internal audit department shall be responsible for the implementation of this system.
- 4.2. Internal audit should be managed by a full-time senior level manager who reports directly to the managing director. The internal audit manager maintains the right to communicate and consult directly with the chairman of the board and attends all internal audit committee meetings.
- 4.3. Designation, renewal, removal and determination of financial remuneration of the internal audit manager are to be by a decision taken by the managing director subject to the approval of the audit committee.
- 4.4. The internal audit manager should have necessary authorities that enable him/her to fully assume the functions of the post.
- 4.5. The internal audit manager should report on quarterly basis to the chairman of the board and to the audit committee. The report should include the degree of compliance of the company with the laws and rules that regulate its activity and its compliance with the rules of corporate governance.
- 4.6. Defining the objectives, functions, and authorities of the internal audit department, as well as the name of its manager and his assistants should be issued in a clear and detailed report to be written by the corporation's BOD.
- 4.7. The internal audit aims at laying down systems for evaluating the means, methods, and procedures of risk management within the corporation and for soundly implementing the rules governing corporate governance;
- 4.8. Internal audit mechanisms and procedures should be laid down based upon an overview and study of the risks facing the corporation, provided that the opinions and reports of the board, auditors and managers are sought and that the monitoring and evaluation processes are periodically updated.

5. External Auditor

- 5.1. The corporation should have an external auditor who is independent and does not have any business relationship with the corporation.
- 5.2. The corporation's board of directors, upon the recommendation of the audit committee, should nominate an external auditor who is efficient, has a good reputation, and appropriate experience; his/her efficiency, experience, and abilities must be commensurate to the size of the corporation, the nature of its operations, and its stakeholders.
- 5.3. The external auditor should be independent from the corporation and its board members. He should not be a shareholder or a board member. He/she should be appointed by a general assembly decision, during which his/her annual remunerations would be set.
- 5.4. The external auditor should attend the corporation's annual general assembly meeting.
- 5.5. The external auditor should comply with the Egyptian accounting standards and regulations, in spirit and content.
- 5.6. The company should not contract the external auditor to carry out any additional tasks, except upon the approval of the audit committee, subject that the additional task are not among those that will be audited or assessed by the external auditor or be in conflict with his assignment as an auditor. The external auditor's fees for the additional tasks should be relevant to his fees for external auditing, and should not represent a significant percentage of his fees as an external auditor to ensure his independence. In all cases, these additional tasks should be presented to the first general assembly of the corporation.
- 5.7. The external auditor should be independent and unbiased. He/she should be protected against the intervention of the board of directors. The board of directors should not be in a position to control the decision to continue his/her assignment or to decide his/her remuneration.

6. Audit Committee

6.1. An audit committee to be set up comprising at least three non-executive board members. At least one of its members should have financial and accounting expertise. If the number of non-executives on the board of directors is less than three, one or more members may be appointed from outside the corporation.

6.2. In addition to the functions mentioned in this code, the audit committee will perform the following functions:

- Evaluate the efficiency of the financial manager and other major staff of the financial department.
- Review the internal audit system and submit a report including its recommendations.
- Review financial statements before submission to the board of directors, and include its recommendations in a report.
- Review the accounting policies and include its recommendations in a report.
- Review the audit plan with the external auditor and provide its recommendations.
- Review the comments of the external auditor and follow up with corrective measures.
- Assess the qualifications, performance, and independence of the external auditor; nominate external auditor and determine his fees.
- Approve assigning additional tasks to external auditor and decide his fees for additional tasks.
- Review the plan of the internal audit department and assess its efficiency and capacity.
- Review the reports of the internal audit department, the feedback of the management regarding these reports, and the corrective measures.

6.3. Audit committee should meet periodically at least on quarterly basis. The meeting should have a specific agenda.

6.4. The corporation should facilitate the tasks of the audit committee including the approval to solicit expertise, if necessary.

7. Disclosure of Social Policies

7.1. The corporation must reveal to the shareholders, the dealing public, and its staff the policies regarding its social, environmental, occupational health and safety, and other policies at least once per year.

7.2. Declared policies should be clear and not misleading, they should include what the corporation intends to undertake as regards: the development and changes in the number and training of employees and social welfare schemes whether within the corporation or in its surrounding environment. As for health and environmental policies, they have to conform to the enforced Egyptian laws and regulations and should aim to protect the welfare of the staff and the surrounding environment. Moreover, they should be sustainable in the long term.

7.3. The corporation, its surrounding environment and the suppliers and clients dealing with it should be correlated based upon credibility, care to attain common interests and the revealing of policies and intentions; this should be done in such a manner that does not conflict with the duty of the corporation, its staff and its managers to maintain confidentiality of financial and commercial information.

8. Avoiding Conflict of Interest

8.1. Each corporation should have written rules and regulations known by the BOD members, administration, managers, and staff on the prevention of conflict of interest and should include the provisions stated in this regard.

8.2. BOD members, managers, and staff are prohibited to deal in the shares of the corporation for a certain period of time prior to the declaration of the results of its financial activity or prior to the declaration of any other information of effective financial nature. It is also prohibited to deal in the shares of the corporation after sudden incidents which have an impact on the activities of the corporation or its financial position until these changes are disclosed to the public. All of the above should be done while observing the enforced provisions of the law and the enforced rules governing listing, circulation, and disclosure.

8.3. The corporation, in conjunction with its staff and dealers, should lay down the rules governing its occupational behavior. These include:

- Rules governing dealing with the corporation whether for buying, selling or additional activities;
- Delegated authorities;
- Means of declaring new policies;
- Safety and health standards adopted;
- Sound occupational standards for dealings among staff and managers and between them and those outside the corporation.

8.4. The corporation should create an internal system for monitoring the implementation of the rules governing its occupational behavior.

8.5. In its dealings with suppliers, the corporation should seek the nomination of those at the same occupational and ethical levels observed by the corporation.

9. Corporate Governance Rules for Other Corporations

These rules mainly address the companies listed on the stock exchange, financial institutions, and companies that are financed primarily through the banking sector. However, as mentioned above, corporate governance applies to all corporations as it balances the different interests and creates a new corporate culture. Hence, the more the degree of compliance with the provisions of the code, the more the interests of the society, the partners, and the shareholders are achieved.

Non-traded shareholding companies or family business and limited liability corporations should take into consideration, in the best of their capacity, compliance with these rules.

Sole proprietorship companies should consider complying with those provisions that avoid conflict of interests, establish internal audit systems, protect the independence of legal and financial advisors and financial auditors, and ensure the disclosure of social policies.

In all cases, if non-traded shareholding companies, family corporations, limited liability companies, or sole proprietorship companies do not have the capacity to comply with corporate governance rules, they should seek less costly alternatives that meet their financial and managerial capacity while ensuring that these alternatives lead to the same results that are addressed through the corporate governance rules.