



Audit Committee Regulations



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**Introduction:**

Given that the matters related to the Board of Directors mandate are steadily increasing requiring more know-how and timely decision-making, the effectiveness and efficiency of the Board of Directors have to develop to keep pace with this steady increase in board responsibilities.

The formation of Audit Committee usually aims to set a mechanism to assist the Board with its duties rather than to expand its base of responsibilities. This can be achieved through the role the Committee plays in serving the Board of Directors in respect of the effectiveness of Company's internal control system, as well as making recommendation to the Board/General Assembly nominating an auditor to audit the Company's accounts.

The Saudi Cement Company,

Being fully committed to the accounting laws, regulations and standards applied in joint stock companies, to strengthening the role of the Board of Directors in making its decisions in light of the financial statements and reports prepared by the Executive Management in accordance with the generally accepted accounting controls and standards, and to the provisions of Companies Law issued by Royal Decree No. (M/3) dated 28/01/1437 AH, as well as the Corporate Governance Regulations issued by the Capital Market Authority, especially the provisions on constituting the audit committee in accordance with the provisions and controls contained in the Law and Regulations,

Has duly established these Regulations to organize the audit committee work. Following are the provisions of these Regulations:

Definitions:

The following terms and phrases, wherever mentioned in these Regulations, shall have the meanings ascribed thereto, unless the context requires otherwise:

- 1. Committee/Audit Committee:** the Audit Committee of the Saudi Cement Company (SCC).
- 2. Board/Board of Directors:** SCC's Board of Directors, which is entrusted with managing the Company in a manner that serves shareholders' interests. The Board members are elected by the General Assembly or appointed according to the Company' bylaws and constitute as a whole the Company's Board of Directors.
- 3. Non-executive Board Member:** A board member who is not bound to serve on a full-time basis and does not engage in Company's day-to-day work.
- 4. Independent Board Member:** A non-executive board member who is fully independent in his position and decisions, and is not covered by any of the issues affecting independence stipulated in Article 20 of the Corporate Governance Regulations.



5. Internal Audit Department: The Internal Audit Department is a department that provides independent and objective assurance or advisory services on the audited matters in order to add value to them and improve the Company's operations. The Internal Audit Department assists the Company in realizing its objectives by providing an organized and logical input for evaluating and improving the effectiveness of the Internal Control System and governance.

6. Internal Control System: It includes policies, procedures and processes that are part of the supervisory framework encompassing each of Company's departments.

7. Second-degree Relative: the brothers and sisters.

8. Auditor: The auditing firm that is contracted with to audit Company's accounts and financial reports.

Approval of Regulations:

The Ordinary General Assembly, based on a recommendation from the Board of Directors, shall approve these regulations, including the rules for nominating Audit Committee members and determining membership term, Committee's functions and work regulations and the remuneration of its members.

Purpose, Functions and Scope of Committee:

The primary function of Audit Committee is to provide assurance on the adequacy and effectiveness of Internal Control System, and to submit any necessary recommendations to the Board of Directors that would promote and develop that system in a manner that achieves Company's objectives and safeguards the interests of shareholders and investors with high efficiency. The Audit Committee may view the information, data, reports, or other matters that the Committee deems important. The Audit Committee is responsible for monitoring the Company's work and ensuring soundness and integrity of its financial reports and statements, and internal control systems.

The scope of Committee's work includes all activities that enable it fulfill its purpose, including:

A) Financial Reports:

1. Examine the interim and annual financial statements before submitting the same to the Board of Directors, in order to express its opinion and recommendation regarding them (if any), to ensure that these statements are sound, integral and transparent.
2. Provide the technical opinion, at the Board's request, on whether the Company's Board report and other financial statements are integral, balanced, understandable and include information that allow shareholders and investors to evaluate the Company's financial position, performance, business model and strategy.
3. Consider any important or irregular issues contained in the financial reports.



4. Carefully consider any issues raised by the Company's CFO or his deputy, Compliance Officer, or auditor.
5. Evaluate the accounting estimates regarding the fundamental matters contained in the financial reports.
6. Study the accounting policies adopted by the Company and give opinion and recommendation to the Board in this regard.

B) Internal Audit:

1. Coordinate with the Internal Audit Department regarding the study and review of Company's internal and financial control systems and risk management system to provide assurance that the internal control system is efficient and fulfills the Company's objectives in this regard.
2. Review and approve the Internal Audit Department's annual and strategic audit plans.
3. Study the Internal Audit Department's reports and follow up on the corrective actions taken regarding the notes found in these reports.
4. Monitor and supervise the performance and work of Internal Audit Department, in order to ensure the availability of necessary resources and effectiveness of that Department in performing the functions and tasks assigned thereto as well as its independence and objectivity.
5. Make recommendations to the Board of Directors for appointment, dismissal or rewarding a unit manager or Internal Audit Department Director.

C) Auditor:

1. Submit recommendations to the Board of directors regarding nomination, dismissal, setting remuneration or assessing the performance of auditors, after ensuring their independence and verifying the scope of their work and the terms of contracting with them.
2. Verify the auditor's independence, objectivity and fairness, and the effectiveness of audit work, taking into account the relevant rules and standards.
3. Review the auditor's plan and work, verify that the auditor has not initiated technical or administrative works outside the scope of audit work, and express its opinion in this regard.
4. Answer the inquiries of Company's auditor.
5. Study the auditor's report and notes on the financial statements and follow up the actions taken in their regard.

D) Compliance:

1. Review the outcomes of regulators reports and ensure that the Company has taken the necessary actions regarding them.



2. Ensure that the Company is compliant with the relevant laws, regulations, policies and instructions.
3. Review the contracts and transactions to be conducted by the Company with related parties, and submit its opinions in this regard to the Board of Directors.
4. Raise the issues it deems necessary to take action in their regard to the Board, and make recommendations on the actions to be taken.

Committee Powers:

The Audit Committee is responsible for monitoring Company's work, and to that end, it is entitled to:

1. View the Company's records and documents.
2. Request any clarification or statement from members of the Board or Executive Management.
3. Request the Board to call the General Assembly to convene if the Board impedes its work or the Company incurs heavy damage or losses.

First: Rules for Selecting Committee members:**Article 1: Formation of Committee**

1. The Board shall form, by a decision of the Company's Ordinary General Assembly, an audit committee of three members selected by the Board, whether from among shareholders or otherwise, for a term ending at the end of Board term, which is three years renewable for similar terms. The Committee members may be independent or non-executive. However, the Committee shall have among its members an independent member.
2. No one who has served during the past two years in the executive or financial management of the Company, or with Company's auditor, may be a member of Audit Committee.

Article 2: Membership Vacancy

In the event of any vacancy in Audit Committee membership during the term of membership, the Committee shall continue to perform its duties until another member is appointed to the vacant position. The Board shall appoint another member to the vacant position and the new member shall complete the term of his predecessor, provided that the appointment is presented to the first Ordinary General Assembly for its approval. The position of a committee member becomes vacant due to death or disability or if that member is dismissed by a decision of the Board, provided that the dismissal decision is submitted to the Ordinary General Assembly for its approval, which shall be in the following cases:

- A. The member requested to be dismissed from his position as a Committee member.



- B. Abuse of position as a Committee member or misconduct that the Board finds harmful to the Company's objectives and reputation in general and Committee in particular.
- C. A member is absent for three consecutive meetings of Committee without an excuse acceptable by the Ordinary General Assembly.
- D. The Ordinary General Assembly may, during the Committee's session, dismiss any of Committee members without giving reasons.

Article 3: Status of Committee Member

The Committee member shall be a non-executive Board member, provided that among the members of Audit Committee there shall be one who is specialized in financial and accounting affairs, with preference given to those who hold an appropriate academic qualification and experience in industrial sector.

Article 4: Chairman & Secretary

The Committee shall elect a chairman from among its members, and secretary to draw up the minutes of its meetings and take over the administrative work.

Second: General Provisions

1. The Committee Chairman or whoever represents him from among the Committee members shall attend the General Assemblies to answer shareholders' inquiries, if any.
2. The Company shall notify CMA of the names of Committee Members and their type of membership within five working days from the date of their appointment, as well as any changes made to that membership within five working days from the date of changes.
3. The Board Chairman may not be a member of Audit Committee.
4. The Committee shall consider the matters that fall within its scope or those referred thereto by the Board, and then make its recommendations to the Board to take a decision regarding these matters, or to take the necessary decisions if so authorized by the Board.
5. The Committee may seek the assistance of experts and specialists from within or outside the Company within the limits of its powers, provided that this matter is included in the minutes of its meeting, naming the expert and his relationship to the Company or Executive Management.

Article 5: Confidentiality

A Committee member shall abide by confidentiality provisions applicable to Board members with regard to Company's secrets and may not disclose to the shareholders or third parties the information he becomes aware of.

Article 6: Nomination of Auditor

The Committee shall nominate the Company's auditor, as dictated by the Company's interest.

**Article 7: Reviewing Auditor's Reports**

The Committee shall review and audit the reports and notes submitted by the Auditor, and expresses its opinion regarding them, if any, to the Board.

Article 8: Actual Expenses and Annual Remuneration

1. The annual remuneration for a Committee member shall be SAR 100,000 (one hundred thousand riyals).
2. The Committee member shall receive the amount of the abovementioned remuneration proportional to the number of meetings attended by him.
3. The Company shall bear or pay to the Committee member the actual expenses incurred for staying in a hotel and first-class air tickets.
4. The remuneration of Committee members is paid after the last meeting of the Committee in the calendar year.

Article 9: Loans & Guarantees

The Company may not give cash loans to any or all of the Committee members, or to provide security for any loan contracted on by one or more of the Committee members with third parties, and any such contract that is made in violation of this Article shall be deemed void and null

Article 10: Regulations Amendments

The Board of Directors may propose amendment to these Regulations in accordance with new process requirements, decisions or instructions issued by the competent government agencies, provided that this amendment is presented to the General Assembly in its first meeting for approval.

Third: Responsibilities & Functions of Audit Committee

Audit Committee does not detract from Company Management's responsibilities in terms of the Company financial statements and business management nor the auditors' responsibilities related to assessing validity of the financial statements in accordance with the auditing standards recognized and approved in the Kingdom. Audit Committee then shall be responsible for ensuring that the responsibilities of Company Management and auditor are duly fulfilled.

Article 11: Conflict between the Audit Committee and the Board

If a conflict arises between the recommendations of the Audit Committee and the Board resolutions, or if the Board refuses to put the Committee's recommendations into action as to appointment or dismissal of the Company's auditor or determining its remuneration, assessing its performance or appointing the internal auditor, the Board's report shall include the Committee's recommendations and justifications, and the reasons for not following such recommendations.

Article 12: Committee's Meetings, Quorum and Resolutions

1. The Committee shall meet upon a call of its chairman. A Committee meeting shall be valid only if attended by majority of its members. The Committee



member shall not attend the Committee meetings on behalf of another member. The Committee's resolutions shall be passed by a majority of votes and in the event of a tie, the meeting chairman will cast the deciding vote.

2. The Committee may use the means of modern technology in its meetings, including: "Audio conference call" and visual means of communication, and this shall mean that the Committee member has duly attended the meeting.

3. The Committee members' approval of the minutes and reports shall be written, whether written on paper or sent via e-mail.

4. No member of the Board or Executive Management save for the Committee secretary and Committee members shall have the right to attend the Committee meetings unless the Committee requests to know their opinion or obtain their advice.

5. The Committee's meetings shall be documented in minutes that shall include the discussions and deliberations that took place, Committee's recommendations and voting results. These minutes shall be kept in a private and organized record and shall include the names of present members and the reservations they expressed, if any. These minutes shall be signed by all the present Committee members.

Article 13: Committee Reports

1. The Audit Committee shall review the Company's financial statements, reports and notes provided by the Auditor, and express its opinions thereon, if any. The Committee shall also prepare a report about its opinion regarding the adequacy of the Company's internal and financial control systems and risk management system, along with any other activities falling within the Committee competences. That report shall be read out during the General Assembly meeting.

2. The Committee report shall be published on the Company's website and CMA website.

3. The Company shall keep the Audit Committee report at the Company's headquarters for a period of no less than ten years. Without prejudice to this period, the Company shall, in the event of a case (including any existing or threatened case), a claim or any existing investigation procedures related to the report, keep the report until the end of that case, claim, or existing investigation procedures.

The Committee shall also submit a report to the Board, in case of any serious violations.

Article 14: Number of Committee meetings

1. The Audit Committee shall hold four meetings a year and it may hold additional meetings, when necessary.

2. The Audit Committee shall periodically convene with the Company's auditor and internal auditor.



3. The internal auditor and Auditor may call for a meeting with the Audit Committee when necessary.

Article 15: Cooperation of Employees with the Committee

1. The Committee shall have the authority to oversee any activity performed by the Company and all the Company's employees shall fully cooperate with the Committee members for the benefit of the Company.

2. The Committee shall develop arrangements that enable the Company's employees to confidentially provide their remarks in respect of any inaccuracies in the financial reports or other reports. The Committee shall ensure that such arrangements have been put into action through an adequate independent investigation in respect of the error or inaccuracy, and shall adopt appropriate follow-up procedures.

Fourth: Selection Controls of Joint-Stock Companies' Auditor

The Audit Committee shall nominate 5 licensed auditors who have the ability to efficiently audit the Company's accounts in order to invite them to audit the Company's accounts.

Article 16: Auditor's Scope of Work

The Committee shall define the audit scope, provided such scope includes the following:

1. Assess the internal control system, including the accounting system.
2. Test a sample of Company's financial operations selected by the Auditor.
3. Communicate with the Company's creditors and debtors for confirming the balances or otherwise.
4. Monitor inventories, including the inventories made in the Company's projects and branches.
5. Comply with audit standards approved in the Kingdom in order to ensure that financial statements as a whole:
 - Fairly reflect the Company's financial position at a specific date and results of its business for the quarter and / or fiscal year ending on that date in light of presentation and disclosure of information contained in these financial statements in accordance with the accounting standards recognized and approved in the Kingdom and suitable for the Company's circumstances.
 - Comply with the requirements of Companies Law and the Company's bylaws regarding preparation and presentation of financial statements.
6. Inform the Company's officers in writing of the notes found by the Auditor upon auditing.
7. Examine the interim (quarter) financial statements required by CMA Listing Rules.

Article 17: Auditors' Proposals

The Company Management shall address an invitation to the auditors who are nominated by the Audit Committee. The invitation shall include the scope or work mentioned in Article 16 hereof, in addition to the conditions and other obligations the Company deems necessary to complete the audit process. Each



auditor shall submit its proposal for auditing the Company's accounts along with a background of its auditing firm, indicating specifically the following details:

1. The academic and professional qualifications of the team members who will conduct the audit, along with their names and nationalities.
2. Indication of the work quality assurance policy adopted in the auditing firm.
3. The parties, if any, it intends to hire to assist in auditing the Company's accounts, and the activities in which they will participate, nature of their participation, the qualifications and experiences of the persons who will be hired for that purpose.
4. The auditing firm's previous experience in auditing similar companies.
5. Size of the auditing firm, its branches and the number of technical employees working therein.
6. Working hours for each of the teamwork members (Associate / Audit Manager/ etc).
7. Family relationship between the Auditor or teamwork who will conduct audit and the Board members and/or Committee members, if any. Work relationship between the Auditor and Company or any of the Board members, if any.
8. The expected date for issuing the report on Company's financial statements.
9. Audit fees.

Article 18: Comparing Auditors' proposals

The Company's Internal Audit Department shall draw up a table including comparison among the Auditors' proposals in accordance with the details mentioned in Article 17 hereof and submit the same to the Audit Committee accompanied by the proposals and details submitted by the Auditors.

Article 19: Analysis of Auditors' Proposals

The Audit Committee shall study the comparison table, proposals and details attached therein, and it may meet, if so desired, with the teamwork of each auditing firm separately to discuss the auditors' proposals in light of the details referred to in Article 17.

Article 20: Nomination of an Auditor

The Committee shall prepare a memorandum to be submitted to the Board in which it states a brief analysis of the submitted proposals and shall nominate one or more auditors to audit the Company's accounts and indicate the basis on which the nomination was made.

Article 21: Amendments

- Amendment No. (1): Article 8 was amended by a resolution of the Ordinary General Assembly held on 21/04/1433 (14/03/2012).
- Amendment No. (2): Regulations were amended by a resolution of the Extraordinary General Assembly held on 12/07/1438 (09/04/2017).



- Amendment No. (3): Articles 8 & 10 were amended by a resolution of the Ordinary General Assembly held on 09/04/1439 (27/12/2017).
- Amendment No. (4): Article 8 was amended by a resolution of the Ordinary General Assembly held on 11/08/1440 (16/04/2019).