

Corporate Governance Report

Company's Philosophy

Galfar Engineering and Contracting SOAG, is convinced with the importance of the need for good corporate governance and healthy corporate practices for a company to succeed in the long run, fulfill its plans and realize its objectives. The concept of governance at Galfar envisages care of the Company to enhance the value of all its stakeholders, that by adhering to proper methods of management, internal controls, accountability, corporate governance rules and high level of transparency to the extent of not affecting the competitive position of the Company. The Company continues applying a well defined Management Systems Procedures (MSPs) in accordance with ISO 9001, the adherence to such principles would be attainable.

The company is fully abiding by the corporate governance code issued by the Capital Market Authority (CMA). The company has taken all necessary steps to fulfill the objective of good corporate governance.

The Board Members have professional and/or practical experiences in their diversified fields of profession as shown as profile in the Annual Report booklet. They have given great support to the Board to exercise its widest authorities in managing the Company and supervise the good performance of the Company's business. The Board is responsible for achieving the company's objectives. For this purpose, the Board is assisted by various committees and the higher executive management of the company. The Board has formed the executive Committee, the Audit Committee and other ad hoc committees when the need arises such as the procurement committee. In addition, there is a well-structured organization for the management executives whose duties and authorizations are defined in the manual of authority approved by the Board.

In general the board exercises its primary functions and duties in line with the powers stipulated in article 35 of the Articles of Association of the company.

Board of Directors

The First Board of Directors which was duly elected by the Constitutive General Meeting of the Shareholders on 9 October, 2007 comprises of nine members. The board comprises of nine Directors, eight non executive and one executive. Five of the non executive directors are independent.

The Members of the Board are all having professional and practical experience in their respective corporate fields ensuring proper direction and control of company's activities. No director is a member of more than 4 joint stock public companies whose shares are listed on the Muscat Securities Market (MSM) and no director is chairman of more than 2 public companies whose principal office is in the Sultanate of Oman. None of the directors is a member of a Board of Directors of a joint stock public or closed company which carries out similar business and whose principal office is in the Sultanate of Oman.

Sr. No.	Name of Directors & Representatives	Designation	Category	Directorship in other Joint Stock Companies
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araiimi	Chairman	Non - Executive	Bank Sohar S.A.O.G Oman Medical College S.A.O.C
2	Dr.P. Mohamed Ali	Vice Chairman & Managing Director	Executive	Tabreed Oman S.A.O.C Oman Medical College S.A.O.C
3	Dr.Hamed Hashim Mohamed Al Dhahab (Till 26.07.2012)	Director	Non - Executive Independent	A'sharqiya Investment Holding Co. S.A.O.G
4	Dr.Adil Abdulaziz Yahya Al Kindy	Director	Non - Executive Independent	Bank Nizwa SAOG
5	Dr.Hatem Bakheit Saeed Al Shanfari	Director	Non - Executive Independent	Gulf Investment Services Co. S.A.O.G Gulf Baader Capital Markets Co. S.A.O.C
6	Sheikh Salim Abdullah Saeed Badr Al Rawas	Director	Non - Executive Independent	Oman Oil Marketing Company S.A.O.G
7	Sheikh Yahya Abdullah Al Fannah Al Araiimi	Director	Non - Executive Independent	NIL
8	Engr. Salman Rashid Al Fannah Al Araiimi	Director	Non - Executive Independent	NIL
9	Ms.Budoor Mohamed Rashid Al Fannah Al Araiimi (Till 18.10.2012)	Director	Non - Executive	Gulf Plastic Industries Co. S.A.O.G A'sharqiya Investment Holding Co. S.A.O.G Oman Medical College S.A.O.C
10	Mr. Hamad Mohamed Al Wahaibi (From 18.10.2012)	Director	Non - Executive	Voltamp Energy Co. (SAOG), Al Madina Insurance Co (SAOC), and Shaden Development Co. (SAOC).
11	Ms. Khalood Mohamed Rashid Al Fannah Al Araiimi (From 19.10.2012)	Director	Non - Executive	Gulf Plastic Industries Co. S.A.O.G Oman Medical College S.A.O.C

Board Meetings:

During the year 2012, the Board held 5 meetings. The following table shows details of the same.

Sr. No.	Name of Directors & Representatives	Meeting 29	Meeting 29 (Contd.)	Meeting 30	Meeting 31	Meeting 32
		07-Mar-12	12-Apr-12	13-May-12	26-Jul-12	18-Oct-12
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araiimi	√	√	√	√	X
2	Dr.P. Mohamed Ali	√	√	√	√	√
3	Dr.Hamed Hashim Mohamed Al Dhahab (Till 26.07.2012)	√	√	√	√	N/A
4	Dr.Adil Abdulaziz Yahya Al Kindy	√	X	√	√	√
5	Dr.Hatem Bakheit Saeed Al Shanfari	√	√	√	√	√
6	Sheikh Salim Abdullah Saeed Badr Al Rawas	√	√	X	√	√
7	HE Yahya Abdullah Al Fannah Al Araiimi	√	√	X	X	√
8	Engr. Salman Rashid Al Fannah Al Araiimi	√	√	√	√	√
9	Ms.Budoor Mohamed Rashid Al Fannah Al Araiimi (Till 18.10.2012)	√	√	X	√	√
10	Mr. Hamad Mohamed Al Wahaibi (WEF 18.10.2012)	N/A	N/A	N/A	N/A	√
11	Khalood Mohamed Rashid Al Fannah Al Araiimi (WEF 19.10.2012)	N/A	N/A	N/A	N/A	N/A

Remuneration to the Board of Directors:

The total amount of remuneration proposed to be paid to the Directors excluding sitting fees for the year 2012 is RO.156,700/-. The sitting fees payable for the period is RO 43,300/-. During the year 2012 an amount of RO 149,988 was paid as Director's Remuneration, including sitting fees, for the year 2011.

Board Secretary

Mr.Abdelbagi Daffalla, of a legal profession career, was appointed secretary of the Board. The secretary records minutes of the Board meetings as well as the resolutions passed. He handles liaison works between the Board, Board committees and follow-up actions to be taken and informing concerned parties.

Other Committees:**Executive Committee:**

The Board has formed, an Executive Committee which consists of 4 members, to oversee in general, setting of business and strategic plans, policies of the Company, review decisions taken on various matters concerning the operation of the company and any other matters assigned by the Board. The Executive Committee exercises its functions in accordance with the Executive Committee Charter. The committee held six meetings during the year 2012

Name of members of the committee	Designation
Dr.Adil Abdulaziz Yahya Al Kindy	Chairman
Dr.P. Mohamed Ali	Member
Salman Rashid Al Araimi	Member
Sheikh Salim Abdullah Saeed Badr Al Rawas	Member

Name of Committee Members	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting	6th Meeting
	27	28	29	30	31	32
	03-Mar-12	07-Jun-12	18-Jul-12	17-Sep-12	16-Oct-12	14-Nov-12
Dr.Adil Abdulaziz Yahya Al Kindy	√	√	√	√	√	√
Dr.P. Mohamed Ali	√	√	√	√	√	√
Sheikh Salim Abdullah Saeed Badr Al Rawas	√	√	√	√	X	√
Engr. Salman Rashid Al Araiimi	√	√	√	√	√	√

Audit Committee

The audit committee is appointed by the board of directors to assist the board in discharging its oversight responsibilities. The audit committee will oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information. The audit committee will also review: the effectiveness of the company's internal financial control and risk management system; the effectiveness of the internal audit function; the independent audit process including recommending the appointment and assessing the performance of the external auditor; the company's process for monitoring compliance with laws and regulations affecting financial reporting and code of business conduct.

In performing its duties, the committee will maintain effective working relationships with the board of directors, management, and the external and internal auditors. To perform its role effectively, each committee member will need to develop and maintain his skills and knowledge, including an understanding of the committee's responsibilities and of the company's business, operations and risks. The Committee held six meetings during the year 2012.

Audit Committee Members	Designation
Dr Hamed Al Dhahab (Till 26.07.2012)	Chairman (Former)
HE Yahya Al Fannah Al Araiimi	Member
Dr Hatem Al Shanfari	Chairman (Present)
Ms. Budoor Al Fannah Al Araiimi (Till 18.10.2012)	Member (Former)
Mr. Hamad Mohamed Al Wahaibi (WEF 18.10.2012)	Member (Present)
Ms. Khalood Mohamed Rashid Al Fannah Al Araiimi (wef 19.10.2012)	Member (Present)

Audit Committee Meeting & Attendance Details - Year 2012

Audit Committee Members	Meeting Dates / Attendance					
	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting	6th Meeting
	06-Mar-12	11-Apr-12	09-May-12	25-Jul-12	05-Sep-12	17-Oct-12
Dr Hamed Al Dhahab	√	√	√	√	X	X
HE Yahya Al Fannah Al Araiimi	√	√	X	X	X	X
Dr Hatem Al Shanfari	√	√	X	√	√	√
Ms. Budoor Al Fannah Al Araiimi	√	√	√	√	√	√

Procedure for Standing as a Candidate for the Board:

The right to stand as a candidate for membership of the Board of Directors of the Company is open to shareholders and non shareholders.

In case of a shareholder, whether in personal capacity or representing a juristic person, he must have a minimum equity of not less than 10000 shares.

Key Management Remuneration:

Total remuneration during the financial year 2012 to top Management (top 5) was RO 752,203/-.

Compliance with Rules and Regulations:

The Company has been compliant with all the applicable rules and regulations issued by MSM, CMA and that stipulated in the Commercial Companies Law 1974 as amended. An Audit Team from Capital Market Authority (CMA) conducted a general audit over the Year 2011, to ensure the company's commitment to the Corporate Governance Code of SAOG companies and other regulations and laws issued by the CMA. Their respective report, commended the Company's commitment towards Corporate Governance and other regulations and laws.

The Company participated in a discussion workshop on the new Definition of Independent Director organized by the CMA on the 20th of January 2013 and also the Transparency and Disclosure in capital markets seminar organized by Capital Markets Authority on 23 January 2013. The discussion workshop aimed at opening communication and dialogue between CMA, the companies and legal advisors to explain the recent moves of CMA in approving the new amendment to the definition of independent director and to acquaint with the motives behind such amendment and the goals intended there from through application of the new definition and ways for overcoming the challenges facing the companies in such application. The Seminar aimed to promote awareness of disclosure and transparency in the financial markets and to acquaint with best international and local practices for the regulation of disclosure by Public Joint Stock Companies. The seminar focused on senior managements in the public and private sectors, investment funds and companies and other concerned parties and we in Galfar have been compliant with the new definition of Independent Director and disclosing material information in a transparent manner.

Communication with Shareholders and Investors:

The company maintains good communication relations with the shareholders and Investors and responds as much as possible to their queries and requests in line with the disclosures rules. The company, during the period, conducted several phone interviews with financial analysts and investors.

The company publishes its un-audited financial results in the newspapers on a quarterly basis and the audited financial statements annually. Detailed financial statements are sent to shareholders on request. The company publishes its quarterly and annual results in MSM website. Detailed financial statements are sent to shareholders on request. The company posts its quarterly and annual results on MSM website, and also on the Company's website: www.galfar.com. All the Company's announcements are posted on MSM's website.

The Management discussions and analysis report forms an integral part of the Annual Report.

**Statement on market price and distribution of holdings:
High / Low price during each month**

Sr. No.	Month	High	Low	Closing
1	January-12	0.347	0.335	0.335
2	February-12	0.404	0.333	0.394
3	March-12	0.420	0.370	0.379
4	April-12	0.440	0.380	0.421
5	May-12	0.432	0.372	0.398
6	June-12	0.415	0.388	0.392
7	July-12	0.392	0.355	0.365
8	August-12	0.380	0.362	0.369
9	September-12	0.439	0.369	0.413
10	October-12	0.420	0.390	0.385
11	November-12	0.390	0.363	0.367
12	December-12	0.374	0.357	0.364

**Distribution of ownership of shares between shareholders
(Including Shares having preferential voting rights)**

Sr. No.	Category	No. of Shareholders	No. of Shares	% of Shareholding
1	Less than 5%	5,116	113,078,498	34.27
2	5% to 10%	3	73,665,954	22.32
3	Above 10%	3	143,255,548	43.41
	Total	5,122	330,000,000	100.00

There are no Securities / Convertible Financial Instruments as on the Balance Sheet date which will have an impact on the Shareholders' equity.

Profile of the Statutory Auditors

Ernst & Young are the statutory auditors of the Company. Ernst & Young is one of Oman's oldest established accounting firms, having had a permanent office in the country since 1974. The practice comprises around 180 professionals, and is working under the direction of six partners. The Oman office forms part of Ernst & Young's MENA practice, with 102 partners and over 5626 other professionals in 18 offices in 13 countries throughout the region. The MENA practice is a member firm of Ernst & Young Global, operating in more than 140 countries with approximately 167,000 personnel world-wide.

Audit Fees of the Company and Subsidiaries and fees for other services paid to the Auditor :

Sr. No.	Particulars	Amount (In RO)
1	Statutory audit fees (Parent)	22,000
2	Statutory audit fees Al Khalij Heavy Equipments & Engineering LLC (Subsidiary)	2,500
3	Statutory audit fees Galfar Training Institute LLC (Subsidiary)	2,000
4	Statutory audit fees Galfar Engineering & Contracting India Pvt. Ltd. (Subsidiary)	3,928
5	Statutory audit fees Aspire Projects & Service LLC. (Subsidiary)	2,000

The Board of Directors acknowledges as at December 31, 2012:

The Board of Directors acknowledges:

- ❑ With its liability for the preparation of financial statements in accordance with the applicable standards and rules.
- ❑ Review of the efficiency and adequacy of internal control systems of the Company and that it complies with internal rules and regulations. In order to enhance and strengthen the efficiency of the internal control systems, the Company has appointed a chief internal auditor and also recruited technical auditors in the Internal Audit Department.
- ❑ That there is no material matter that affects the continuation of the Company and its ability to continue its production and operations during the next financial year.

Salim Said Hamed Al Fannah Al Araimi
Chairman