

Corporate Governance Report

Company's Philosophy

Galfar Engineering and Contracting SOAG is committed to good corporate governance and healthy corporate practices. The concept of good governance at Galfar envisages care of the Company to enhance the value of all its stakeholders 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 follows high standards of Corporate Governance and has implemented the New Code of Corporate Governance, promulgated by the Capital Market Authority. Transparency, Accountability, Fairness and Responsibility are the pillars of good Corporate Governance.

The Board Members are experienced in their diversified professional fields. 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 sub committees and the higher executive management of the company.

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 Board of Directors comprises of 9 members who were elected by the shareholders at the Annual General Meeting of the Company held on 26th March 2014 for a period of three years. The Members of the Board have professional and practical experience in their respective 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 are members of a Board 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 Director & Representative	Designation	Category	Directorship in Other Joint Stock Companies
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araimi	Chairman	Non Independent Non - Executive	Oman Medical College S.A.O.C
2	Sheikh Salim Abdullah Saeed Badr Al Rawas	Vice Chairman	Non Independent Non - Executive	Oman Oil Marketing Company S.A.O.G , Kunooz Oman Holding S.A.O.C.
3	Dr.Hatem Bakheit Saeed Al Shanfari	Director	Independent Non - Executive	Gulf Investment Services Co. S.A.O.G, Gulf Baader Capital Markets Co. S.A.O.C
4	Mr. Hamad Mohamed Al Wahaibi	Director	Independent Non - Executive	Voltamp Energy Company SAOG, Oman Cables Industry SAOG, SAOC, National Bank Of Oman SAOG
5	Engr. Salman Rashid Al Fannah Al Araimi	Director	Non Independent Non - Executive	National Factory for Security & Safety Equipments SAOC
6	Ms. Khalood Mohamed Rashid Al Fannah Al Araimi	Director	Non Independent Non - Executive	Gulf Plastic Industries Co. S.A.O.G Oman Medical College S.A.O.C
7	Mr. Abdulqader Askalan	Director	Independent Non - Executive	Oman Telecommunication Company S.A.O.G
8	Engr. Mohiuddin Mohamad Ali	Director	Non Independent Non - Executive	Oman Medical College S.A.O.C
9	Engr. Raiz Basheeruddin	Director	Independent Non - Executive	None

Board Meetings:

During the year 2016, the Board held nine (9) meetings in eleven sessions. The dates of the meetings and the attendance details are given in the following table:

Board of Directors Meetings & Attendance Details - Year 2016

Sr. N o.	Name of Director & Representative	Meeting 59	Meeting 60	Meeting 61	Meeting 62	Meeting 63	Meeting 64	Meeting 65	Meeting 66	Meeting 67
		11-Feb-16 & 13-Feb-16	08-Mar-16 & 09-Mar-16	07-Apr-16	26-Apr-16	08-May-16	06-Jun-16	09-aug-16	09-Nov-16	20-Dec-16
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araimi	√	√	√	√	√	√	X	√	√
2	Sheikh Salim Abdullah Saeed Badr Al Rawas	√	√	√	√	√	√	√	√	√
3	Dr.Hatem Bakheit Saeed Al Shanfari	√	√	√	X	√	√	X	X	√
4	Mr. Abdel Qadir Ahmed Askalan	√	√	√	X	√	X	X	√	√
5	Engr. Salman Rashid Al Fannah Al Araimi	√	√	√	√	√	√	√	√	√
6	Ms. Khalood Mohamed Rashid Al Fannah Al Araimi	√	X	√	√	√	√	X	√	√
7	Mr. Hamad Mohamed Al Wahaibi	√	√	X	X	√	√	√	√	√
8	Engr. Mohiuddin Mohamad Ali	√	√	√	√	X	√	√	√	√
9	Engr. Raiz Basheeruddin	√	√	√	X	√	√	√	X	√

Remuneration to the Board of Directors:

The total amount proposed to be paid to the Directors for the year 2016 is RO 50,000 being the sitting fees for the year 2016, which will be paid to the Directors after approval by the shareholders in the AGM scheduled to be convened on 30th March, 2017.

The total amount approved by the shareholders for the year 2015 and paid to the Directors during the year 2016 is detailed as under:

Sr. No.	Name of Director & Representative	Sitting Fees	Remuneration	Total
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araimi	5,695	-	5,695
2	Sheikh Salim Abdullah Saeed Badr Al Rawas	5,931	-	5,931
3	Dr.Hatem Bakheit Saeed Al Shanfari	5,931	-	5,931
4	Mr. Abdel Qadir Ahmed Askalan	4,448	-	4,448
5	Engr. Salman Rashid Al Fannah Al Araimi	5,931	-	5,931
6	Ms. Khalood Mohamed Rashid Al Fannah Al Araimi	5,694	-	5,694
7	Mr. Hamad Mohamed Al Wahaibi	5,694	-	5,694
8	Engr. Mohiuddin Mohamad Ali	5,931	-	5,931
9	Engr. Raiz Basheeruddin	4,745	-	4,745
Total		50,000	-	50,000

Board Secretary

The elected Board re-appointed Mr. Abdelbagi Daffalla, a legal professional, as secretary of the Board. The board secretary assists the board in complying with the provisions of the Code of Corporate Governance and the applicable local laws and regulations. The secretary sends out the invitations for meetings of the board, records the minutes of the meetings in detail and follows up the implementation of the resolutions adopted by the Board.

Committees of the Board:

The following committees assist and support the Board in carrying out its responsibilities.

Supervisory and Follow up Committee (SAFCOM):

The Supervisory and Follow up Committee (SAFCOM) was formed by the Board on August 10 2014 and now consists of 5 members. SAFCOM assists the board to provide its support to the executive management to run effectively and efficiently the businesses of the Company in order to achieve the Company's objectives and to ensure that the interests of the Shareholders are protected. In this context, the committee extends a follow-up support to overcome the difficulties faced by the executive management including collection of outstanding receivables. The committee also studies Investment

opportunities for the company and monitors performance of all Company's units. To be compliant with the Code of Corporate Governance, Dr. Hatem Bakheit Saeed al Shanfari, being the chairman of the Audit Committee, was replaced by the Director Ms. Khulood M Rashid Al Fannah Al Araiimi in SAFCOM.

Sr. No.	Name of Director & Representative	Designation
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araiimi	Chairman
2	Sheikh Salim Abdullah Saeed Badr Al Rawas	Member
3	Dr.Hatem Bakheit Saeed Al Shanfari (Till 20/10/2016)	Member
4	Mr. Abdel Qadir Ahmed Askalan	Member
5	Ms. Khalood M Rashid Al Fannah Al Araiimi (W.E.F 10/12/2016)	Member
6	Engr. Mohiuddin Mohamad Ali	Member

SAFCOM Meetings:

During the year 2016, SAFCOM held 18 meetings. The following table shows dates of the meetings and attendance details

Sr. No.	Name of Director & Representative	Designation	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting	6th Meeting	7th Meeting	8th Meeting	9th Meeting
			14-Jan-16	21-Jan-16	28-Jan-16	04-Feb-16	18-Feb-16	25-Feb-16	03-Mar-16	16-Mar-16	31-Mar-16
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araiimi	Chairman	√	√	√	√	√	√	√	√	√
2	Sheikh Salim Abdullah Saeed Badr Al Rawas	Member	√	√	√	√	√	√	√	√	√
3	Dr.Hatem Bakheit Saeed Al Shanfari (Till 20/10/2016)	Member	√	X	√	√	√	X	√	X	√
4	Mr. Abdel Qadir Ahmed Askalan	Member	X	√	X	X	√	√	X	√	√
5	Ms. Khalood M Rashid Al Fannah Al Araiimi (W.E.F 10/12/2016)	Member	-	-	-	-	-	-	-	-	-
6	Engr. Mohiuddin Mohamad Ali	Member	X	√	X	√	√	√	√	√	√

SAFCOM Meetings (Contd.)

Sr. No.	Name of Director & Representative	Designation	10th Meeting	11th Meeting	12th Meeting	13th Meeting	14th Meeting	15th Meeting	16th Meeting	17th Meeting	18th Meeting
			21-Apr-16	12-May-16	22-Jun-16	28-Jun-16	29-Jun-16	08-Sep-16	09-Oct-16	20-Oct-16	28-Dec-16
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araiimi	Chairman	√	√	√	X	X	X	X	√	x
2	Sheikh Salim Abdullah Saeed Badr Al Rawas	Member	√	√	√	√	√	√	√	√	√
3	Dr.Hatem Bakheit Saeed Al Shanfari (Till 20/10/2016)	Member	√	X	√	√	√	√	√	√	-
4	Mr. Abdel Qadir Ahmed Askalan	Member	√	√	X	√	√	√	√	X	√
5	Ms. Khalood M Rashid Al Fannah Al Araiimi (W.E.F 10/12/2016)	Member	-	-	-	-	-	-	-	-	√
6	Engr. Mohiuddin Mohamad Ali	Member	√	√	√	√	X	√	X	X	x

Audit Committee

Audit committee was formed by the newly elected Board on 27 March 2014 and has 5 members. The primary responsibilities and functions of Audit Committee are to provide assistance to the Board of Directors in fulfilling its responsibilities of monitoring and overseeing the adequacy and effectiveness of the internal control systems, procedures, financial reporting process, the effectiveness of the internal audit function; the independent audit The 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.

The Audit Committee reviews and approves the annual audit plan which is prepared based on risk based audit approach. It also reviews the Audit Committee Charter, Internal Audit Charter periodically. These are key to reinforce the organizational independence of Internal Audit and to establish their rules of engagement throughout the Company.

The Audit Committee has focused to create awareness on the code of ethics and whistleblower policy and ensure that all the staff of the Company has gone through the whistleblower awareness program.

In performing its duties, the committee maintains 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.

Sr. No.	Name of the members of the committee	Designation
1	Dr.Hatem Bakheit Saeed Al Shanfari	Chairman
2	Ms. Khalood Mohamed Rashid Al Fannah Al Araiimi	Member
3	Mr. Hamad Mohamed Al Wahaibi	Member
4	Engr. Salman Rashid Al Fannah Al Araiimi	Member
5	Engr. Raiz Basheeruddin	Member

Audit Committee Meetings:

The Audit Committee held 7 meetings in the year 2016. The dates of the meetings and the attendance details are given in the following table:

Sr. No.	Name of the members of the committee	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting	6th Meeting	7th Meeting
		11-Feb-16	08-Mar-16	08-May-16	06-Jun-16	09-Aug-16	23-Oct-16	07-Nov-16
1	Dr.Hatem Bakheit Saeed Al Shanfari	√	√	√	√	X	√	√
2	Ms. Khalood Mohamed Rashid Al Fannah Al Araiimi	√	X	√	√	X	X	√
3	Mr. Hamad Mohamed Al Wahaibi	√	√	√	√	√	√	√
4	Engr. Salman Rashid Al Fannah Al Araiimi	√	√	√	√	√	√	X
5	Engr. Raiz Basheeruddin	√	√	√	√	√	√	X

Human Resource Nomination and Remuneration Committee:

In accordance with the Code of Corporate Governance for Public Listed Companies issued by the Capital Market Authority, the Board of the Company has formed the nomination and remuneration committee and the name of the Human Resources Committee (HR Committee) has been changed to Human Resources, Nomination and Remunerations Committee. This committee consists of 4 members.

Name of members of the committee	Designation
Ms. Khulood Mohamed Rashid Al Fannah Al Araiimi	Chairperson
Engr. Salman Rashid Al Fannah Al Araiimi	Member
Mr. Hamad Mohamed Al Wahaibi	Member
Engr. Mohiuddin Mohamad Ali	Member

During the year 2016, the Committee assigned the consultant appointed by the Company, Roland Berger, to perform some of the tasks of the Committee which included the designing of a holistic talent management framework with a particular emphasis on attracting, retaining and developing the right talent in an efficient and effective manner.

Procurement Committee

The Board of Directors, on 11 November 2015, formed the Procurement Committee to assist the board in overseeing the management of procurement process and practices. The Committee consists of 3 members chaired by Mr. Hamad Mohammed Hamood Al Wahaibi and membership of Engr. Mohiuddin Mohamad Ali and Ms. Khulood Mohammed Rashid Al Fannah Al Araiimi. During the year 2016, the meetings of the committee were put on hold as some of the tasks of the Committee was taken up by the appointed strategy consultant Roland Berger to improve the Procurement and Supply Chain Management performance in the short, mid and long term, with an overall objective to transform from a reactive to proactive delivery management.

Annual General Meeting

The Annual General Meeting for the year 2016 was held on 27 March 2016. The attendance detail is given below.

Attendance Details to Annual General Meeting Held on 27/03/2016

Sr. No.	Name of Director & Representative	Designation	Attendance
1	Sheikh Dr.Salim Said Hamed Al Fannah Al Araiimi	Chairman	X
2	Sheikh Salim Abdullah Saeed Badr Al Rawas	Vice Chairman	√
3	Dr.Hatem Bakheit Saeed Al Shanfari	Director	√
4	Mr. Hamad Mohamed Al Wahaibi	Director	√
5	Engr. Salman Rashid Al Fannah Al Araiimi	Director	√
6	Ms. Khalood Mohamed Rashid Al Fannah Al Araiimi	Director	√
7	Mr. Abdulqader Askalan	Director	√
8	Engr. Mohiuddin Mohamad Ali	Director	X
9	Engr. Raiz Basheeruddin	Director	X

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 who satisfies the legal requirements provided for in the Commercial Company Law 1974 as amended, the Articles of Associations of the Company and principles of the Code of Corporate Governance.

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. Any person who wishes to stand as a candidate for the Board and is eligible for the same as per the regulations as well as the Articles of association, is required to submit the candidacy form as prescribed by CMA. A candidate who stands for election to the Board is elected at the General Meeting by following the procedures laid down in the Commercial Companies Law, and rules and regulations issued by the CMA.

Key Management Remuneration:

Total remuneration during the financial year 2016 to top Management (top 5) was RO 486,714.

The Company enters into employment contracts with its employees at the start of their service according to the requirements of the Omani Labour law.

Non-Compliance:

There were no penalties imposed on the Company during the year 2016. In the year 2014, a fine of RO 1450/-, was imposed on the Company, for delay in disclosure of the Unaudited Financial Statement for the second quarter on the Company's page at the website of Muscat Securities Market.

Compliance with Rules and Regulations:

The Company has been following the applicable rules and regulations issued by MSM, CMA and those stipulated in the Commercial Companies Law 1974 as amended and Articles of Association of the Company. The Compliance with Rules and Regulations are monitored and ensured jointly by the Legal Department & Internal Audit in cooperation with other departments. The Company is planning to create a full-fledged Compliance function.

The Company has in place internal regulations and control systems which includes an updated Manual of Authority and policies for Whistle blowing, Code of conduct, Related Party Transactions and Revenue Recognition which have been duly approved by the Board.

The Terms of Reference for Board of Directors procedures will be formulated and presented to the Board for their concurrence and approval. The Company has been giving induction to new Directors and has plans to train & develop the new Board to be elected in the upcoming Annual General Meeting.

The Company follows the disclosure rules of the Capital Market Authority and the disclosure guide of the Muscat Securities Market and has now prepared a comprehensive Disclosure Policy which will be implemented in 2017.

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 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 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:

Market High/Low price during each month of 2016

Sr. No.	Month	High	Low	Closing
1	January-16	0.070	0.050	0.056
2	February-16	0.072	0.053	0.060
3	March-16	0.087	0.060	0.084
4	April-16	0.121	0.082	0.118
5	May-16	0.121	0.103	0.106
6	June-16	0.119	0.099	0.109
7	July-16	0.113	0.102	0.104
8	August-16	0.109	0.103	0.104
9	September-16	0.105	0.102	0.104
10	October-16	0.109	0.090	0.094
11	November-16	0.095	0.089	0.090
12	December-16	0.105	0.093	0.094

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

Distribution of Ownership of Shares shareholders (Including Shares preferential voting rights) 2016

Sr. No.	Category	No. of Shareholders	No. of Shares	% of Shareholding
1	Less than 5%	4,688	141,063,045	33.97
2	5% to 10%	2	51,442,431	12.39
3	Above 10%	4	222,710,161	53.64
	Total	4,694	415,215,637	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

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 6,500 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,400 partners and approximately 1,00,000 professionals. Globally, EY operates in more than 150 countries and employs 231,000 professionals in 700+ offices. Please visit ey.com for more information about EY.

Audit fees of the Company and Subsidiaries:

Audit Fees of Company and Subsidiaries and fees for other services paid to the Auditors for 2016

Sr. No.	Particulars	Amount (In RO)
1	Statutory Audit Fees (Parent)	39,000
2	Statutory Audit Fees Al Khalij Heavy Equipment & Engineering LLC (Subsidiary)	2,400
3	Statutory Audit Fees Galfar Training Institute LLC (Subsidiary)	1,700
4	Statutory Audit Fees Galfar Engineering & Contracting India Pvt. Ltd (Subsidiary)	1,258
5	Statutory Audit Fees Aspire Projects & Services LLC (Subsidiary)	2,300
6	Statutory Audit Fees Galfar Aspire Readymix LLC (Subsidiary)	2,200
7	Statutory Audit Fees Salasar Highways Pvt. Ltd. (Subsidiary)	858
8	Statutory Audit Fees Kashipur Sitarganj Highways Pvt. Ltd. (Subsidiary)	858

The Board of Directors acknowledges as at December 31, 2016:

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.
- ☐ That there is no material matter that affects the continuation of the Company and its ability to continue its operations during the next financial year.

Salim Said Hamed Al Fannah Al Araimi
Chairman