

Management discussion and analysis

Overview

Galfar Engineering and Contracting SAOG, is one of the Largest multi disciplined engineering & contracting company in the Sultanate of Oman having a turnover of over RO 365 Million. Galfar transformed into Public Joint Stock Company in the year 2007

The year 2008 witnessed major changes in the World economy. The economic upswing, with increased spending from the Government on Infrastructure & Energy Sector, during the first half of 2008, benefitted the Company with a marked increase in the revenues.

Main objectives and Operational Results

Galfar in its endeavor to keep pace with the growth of business has restructured its organization during the second half 2008. This was done with the intention to facilitate the projected growth and to improve the functional and operational efficiency of the organization. This change is expected to result in better rewards to the Company and stakeholders.

Galfar, has the experience and expertise in project management, engineering, procurement and construction in

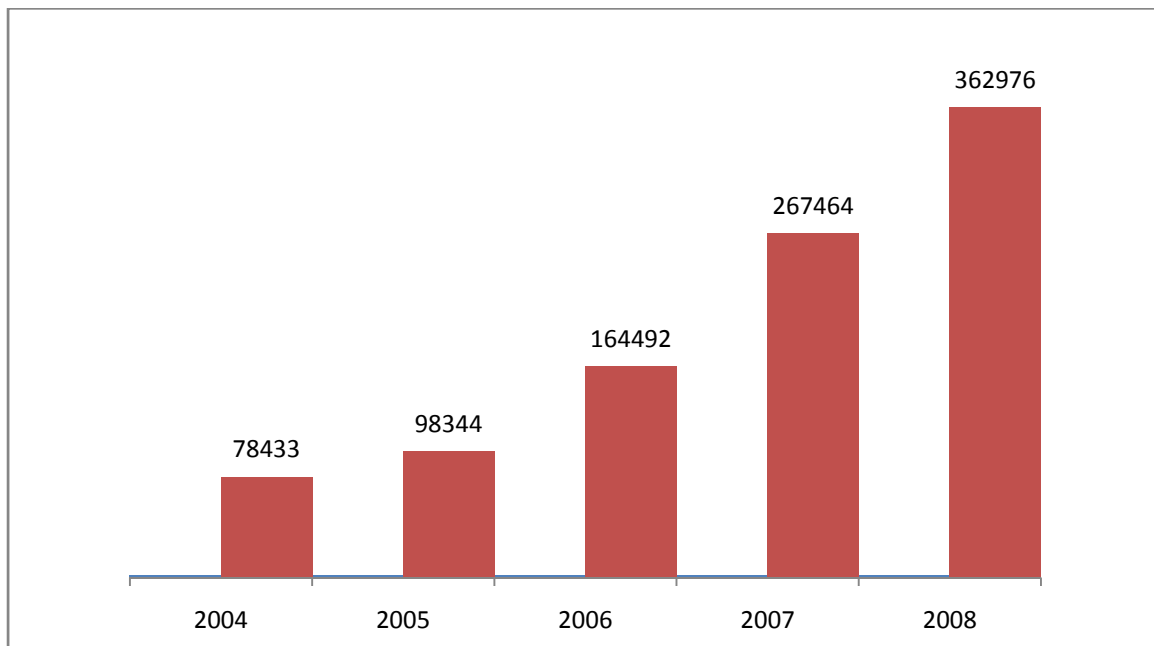
1. Oil and Gas
2. Civil & Electromechanical
3. Roads & Bridges
4. Environmental Projects

The company works as main contractor, in partnerships with other companies and as a subcontractor. Galfar executes projects with its own workforce and equipment whilst subcontracting 19% of the work. Most of the subcontracts are in specialized areas, including engineering. The turnover of the company increased to RO.363 million in 2008 from RO 267 million in 2007. All segments of business increased their turnover with Oil & Gas and Roads & Bridges units in particular being the main contributors of the growth.

During the year 2008, cost pressures build up significantly due to unprecedented increases in price of Cement, Bitumen, Steel and Copper, rise in recruitment and manpower costs and increase in equipment hiring cost. These factors had an impact on the profitability during the second half of the year. Actual profit achieved is RO 22.699 million, compared to RO 21.965 million for 2007.

The growth achieved by the company in the last five years is summarized below:

Contract Income in RO' 000



The subsidiary company which specializes in hiring out of equipments achieved a turnover of RO.2.534 million (2007-RO.2.503 million) and a profit of RO.0.41 million (2007-RO. 0.37 million).

Human Resources

With the increase in the volume of business for the Company, the employee strength has also increased from 22951 in 2007 to 24500 in 2008. The shortage of quality manpower from the conventional sources, has forced the Galfar to pursue manpower markets other than Indian subcontinent. The Company is committed to the Omanisation and employs one of the largest Omani work force in the private sector.

Quality, Health, Safety and Environment

The Company through its Business, Support & System Units continues to demonstrate its commitment to consistently meet the contract requirements for the range of products & services offered in the Oil & Gas & other infrastructure sectors. This is achieved through effective application of the requirements of the ISO 9001:2000, ISO 14001:2004 & OHSAS 18001:1999 standards for quality management, environmental protection and occupational health & safety respectively.

To meet the revised requirements of ISO 9001:2008 and OHSAS 18001:2007, the systems are now being updated, the exercise we expect to complete by the 3rd quarter of 2009

HSE protection is an integral part of our day to day business to enable improvement in the overall work performance and for ensuring greater degree of customer satisfaction both internal & external. During the year 2008 we had driven 115 Million Kms and have worked 92 million manhours. Our Lost Time Injury Frequency (LTIF) for the year was 0.76.

Risks

Comparable to any other business risks do exist in company's business activities but they are managed through careful planning and suitable mitigation measures.

The volume of work available in the market makes it attractive for new players to enter the market. Competition is expected from major engineering and construction companies from UAE, India, Far East, Turkey and Egypt. Galfar being the largest local company is well equipped to meet this competition.

The escalation of activity in the engineering and construction market in the Middle East and India has put strain on availability of quality resources for Company's operations. As far as the construction equipment segment is concerned, Galfar owns the majority of its equipment being operational in its projects and makes significant investments periodically, to match the foreseeable requirements. Recruitment and training of employees, both from inside and outside of Oman provides for the requirements of manpower resources. In pursuit of quality manpower, new manpower markets are being explored.

The Global financial crisis and consequent economic slowdown may reflect on the Company depending on the position taken by the Government of Sultanate of Oman.

Internal Controls Systems

The Board assures that there is a detailed delegation of authority to the various levels of management and adequate corporate control of the organization. The Management is also fully aware of its responsibility towards all the stakeholders. The company addresses these issues by maintaining clearly defined operating procedures which are updated as and when necessary. The Company is in the process of implementing a new ERP system to strengthen the associated internal control systems.

Outlook

As far as the Oman market is concerned, infrastructure development & energy industry is expected to remain on the upbeat. The outlook of the company is promising, considering the fact there are many projects available in the market, and Galfar has the capability to meet this demand. The Company remains confident of growing and consistently meeting the expectations of all the stake holders. Galfar's order book stood at RO.720 million at the beginning of the year 2009 and this will enable optimum utilization of the company's resources for the next two years. During the initial period of the year 2009 we have been awarded orders worth 31 million.

EPC segment of the company's portfolio is made as one of the focus area for growth in the coming years. As part of the strategy of expanding the business in to potential markets, Galfar has already made foray in to the Indian market and has been exploring opportunities in the MENA region.

Dr. Hans Erlings

Chief Executive Officer