

## **DIRECTORS' REPORT**

Dear Shareholders,

I am delighted to welcome you all on behalf of the Board of Directors to the Annual General Meeting of Galfar Engineering & Contracting SAOG and to present the Annual Report for the year ended 31<sup>st</sup> December 2008.

### **BUSINESS ENVIRONMENT**

During the year 2008, the Oman economy witnessed a strong growth on the back of high oil prices, accompanied by an increase in the prices of raw material. However, the last quarter faced unprecedented volatility with significant reduction in demand and prices of oil, due to the current international financial crisis.

The government budget for 2009 is prudently based on oil prices at US\$:45/- per barrel and continue to focus on the economic developmental activities in the country. The major government expenditure is directed towards energy, education, infrastructure, health and tourism sectors. The government has allocated RO.665 million for new development projects, out of the total other development expenditure of RO.800 million.

### **OPERATIONS:**

Details on the operating results of the Company for the year 2008 and outlook for the Industry for 2009 are reflected in the 'Management Discussion & Analysis' report included in the Annual Report for the year 2008.

The summary of the performance of the Company (including Subsidiary) is as follows:

In RO Million

<b>Particulars</b>	<b>2008</b>	<b>2007</b>
Gross revenue	364.367	268.71
Profit from Operation	27.82	26.93
Net Profit After Tax	23.11	22.33

The Earnings Per Share for the year 2008 is RO.0.091 on the face value of RO.0.100.

**SUBSIDIARY:**

Messrs Al Khalij Heavy Equipment & Engineering LLC, a subsidiary of the Company, engaged in transportation and logistics business has achieved turnover of R.O.2.534 Mn. during the year 2008 as compared to R.O.2.50 Mn. in 2007 . More than half of this revenue is from services provided to customers other than Galfar. Profit for the period was R.O.409,849/- in 2008 compared to R.O.366,309/- in 2007. Financials of this subsidiary are consolidated with Galfar.

**OMANISATION:**

Galfar is committed to have a productive and reliable national workforce. Currently Galfar employs 5500 Omani nationals in various categories including specialised jobs such as Project Managers, Project Engineers and HSE Advisors.

The Company is considered as one of the largest in the private sector, employing Omani Nationals with an Omanisation percentage of 22.50% and is the leading employer in the Construction Industry.

The two training centres of Galfar at Sohar and AL Hail is involved in qualifying young Omanis to meet its requirement and that of other Companies mainly in the areas of Heavy Duty Drivers, Operators & Technicians.

**CORPORATE GOVERNANCE:**

Your Company follows high standards of Corporate Governance. A detailed Corporate Governance Report is included in the Annual Report for the year ended 2008.

**HEALTH, SAFETY & ENVIRONMENT:**

The Company continues to maintain its programs for quality, health, safety,, environmental and social responsibilities. Over the years Galfar has to its credit several achievements related to these programs.

Your company is currently certified to ISO 9001:2001 Standards for Quality Management System, ISO 14001:2004 and OHSAS 18001:1999 Standards for environmental protection and occupational health and safety respectively, which helps in its pursuit to ensure quality of its product and to provide a healthy and environment friendly work atmosphere.

The systems are now being revised to meet the new requirements of ISO 9001:2008 & OHSAS 18001:2007 standards to facilitate continual improvement. We expect to complete this process by the third quarter of this year.

Health, Safety & Environment protection are the top priorities for the management of Galfar. During the course of the year your company has driven 115 million km and has worked 92 million manhours across all units. Lost Time Injury Frequency (LTIF) for the year stands at 0.76.

**DIVIDEND POLICY:**

The Company proposes to follow a stable dividend policy based on Company's need for retained earnings to support growth, dividend pay out and overall value creation to the shareholders. In the prospectus to the IPO dividend @ 35% for 2008 on the face value of the share was indicated. The Board has pleasure in recommending a cash dividend of **20% and a stock dividend of 20%** for the year ended 31.12.2008.

**OUTLOOK:**

As stated already, Galfar is very much part of Oman's developmental plans and are extensively involved in construction of Infrastructure Projects. The Company's Order Book ensures continued growth in revenue. The company foresees a stable performance in the coming year despite current global financial crisis, through its measures of cost control and prudent spending,

**ON RECORD:**

We are indeed grateful to His Majesty Sultan Qaboos Bin Said for providing an economic base and environment for sustainable long-term growth as well as opportunities for private and public sector in the development of the Omani economy.

The Board would like to thank all Ministries, Capital Market Authority, Muscat Securities Market, Muscat Depository & Security Registration Company, Muscat Municipality, Royal Oman Police, Petroleum Development Oman and other Companies working in the Oil & Gas sector in Oman, Commercial Banks and Financial Institutions in Oman and abroad where we have relationship, Consultants, Sub-contractors, Dealers and all Clients of the Company, for their generous cooperation and continued support.

We would also like to thank all the staff and management of the company for the effort extended for achievement of the Company's goals.

**Salim Said Hamad Al Fannah Al Araiimi**  
**Chairman**