

# **Management Discussion and Analysis Report**

## **Overview**

Galfar Engineering and Contracting SAOG, continues to be one of the largest multi-disciplined engineering & contracting companies in the Sultanate of Oman.

Galfar's turnover showed an improvement of 14 % over the previous year..

A majority of our projects performed within the established industry standard margins. The complicated projects which caused erosion of the margins are moving towards completion and formal closeout are being planned .

The year 2010 has seen the award of six contracts till date to Galfar, with a total value RO 64 Million. The major amongst these is Ras Al Hadd Airport package 2 comprising of Runway, Taxiway and Aprons etc. with a contract value in excess of 40 Million. Another significant award is for the upgrading of Birkat Al Mouz- Sayq Road in the Jabel Akhtar region of which the contract value is over RO 11 Millions. We have also been awarded with another prestigious contract worth around RO 9.9 Million from the ministry of Health for the New Accident Emergency & Burns department at Khoula Hospital. Other jobs among the new awards include the 33/11 Kv Substation at Airport Heights and Refurbishment and O&M jobs for various Sewage Treatment Plants

## **Main Objectives and Operational Results**

During the end of 2008 Galfar had begun its initiative to restructure the organization. This came into effect in 2009, and has helped in improving the functional and operational effectiveness of the organization.

In our endeavor to continue to meet the future challenges, we have now built a capability to take up much larger EPC projects in order to serve our client's upcoming projects. Already this team has begun its work and we are expecting some major projects to come our way in the near future.

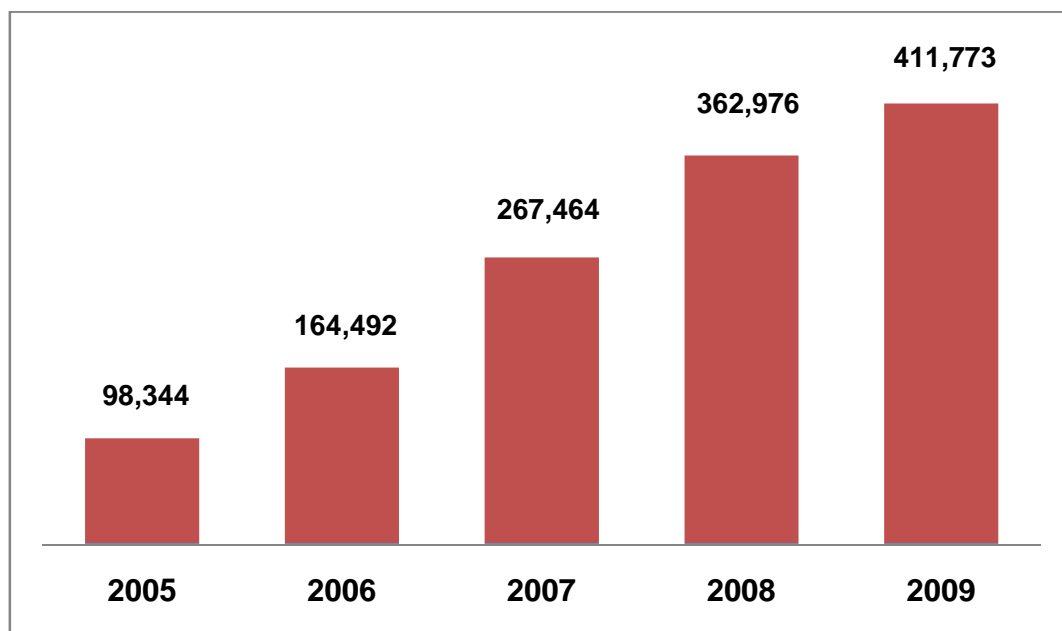
Our experience in the three major sectors of Oil & Gas, Roads & Bridges and Civil & Utilities remains unparalleled by any other competitor. The turnover of the Company increased to RO 411.773 Million in 2009 from RO 363 Million in 2008. All segments of business increased their turnover with Oil & Gas and Civil & Utilities units in particular being the main contributors to the growth.

We are committed to substantially complete the Muscat Expressway project as per the revised target dates, while we continue to make every effort with the Clients and the Engineers to resolve the pending issues.

During the year 2009 the cost for quality manpower and the corresponding recruitment costs were on an unprecedented increasing trend which is due to the shortage of quality manpower in our main source area that is the Indian Subcontinent. This along with the increase in material costs and sub contract have built up significant cost pressures on the Company on the major cost heads.

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 2.089 Million (2008- RO 2.534 Million) .

#### **Human Resources**

With the increase in the volume of business for the Company, the employee strength has also increased from 24500 in 2008 to 27500 in 2009. The company is committed to Omanisation and employs one of the largest Omani workforce in the private sector.

## **Quality, Health, Safety and Environment**

Health, Safety & Environmental Protection has always been a core value in Galfar with focus and visible commitment from Management to protect its employees and other stakeholders from injuries & ill health, prevent damages to assets and minimize impact on the environment in the course of its business.

During the year 2009, Occupational Health & Safety Management Systems certification of Galfar has been upgraded to its current version i.e., OHSAS 18001:2007 & Environment Management System recertified to ISO 14001:2004 standards.

Your Company has recorded several significant achievements in terms of safe manhours worked in projects during the year. Most important among those achievements were 7 Million safe manhours in Harweel project, 10 Million safe manhours in Off Plot Delivery Contract and 17 Million safe manhours collectively in all PDO contracts. Galfar performances in Non-PDO contracts were equally commendable with several achievements, the recent ones being the 5 Million safe manhours in civil projects and 3 Million safe manhours each in Bank Muscat HQ project, Hasik – Shuwaimiyah Road project and Muscat Express Way project.

These achievements are all the more significant, considering the diversity of our operations and the fact that we are spread over the whole of the Sultanate of Oman. Galfar has worked for 100 Million manhours and driven 130 Million kms during the year across its operations.

We hold prestigious memberships of various international institutions such as, British Safety Council, Royal Society of Prevention of Accidents, and National Safety Council.

## **Risks**

Management of Risks through suitable mitigation processes and careful planning continues to be of great importance in our existence in the construction industry.

The volume of work available in the market makes it attractive for new players to enter the market. Also the decline of developmental activities in the neighboring countries due to the global economic slowdown has positioned Oman as an attractive place for business.

Notwithstanding this we expect our 2010 results to be better than 2009.

Our resource mobilization capability continue to be our major strength. The equipment spread available within Galfar remains unparalleled in the local market. Augmenting this periodically has been an ongoing exercise and Galfar continues to invest a significant sum in adding equipment to the fleet.

The Company has a policy of reviewing its Fixed Assets needs either to add new capacity or to replace Plant and Equipment. During the current year the addition to fixed assets was RO 27 Million.

### **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 process of implementation of the new ERP system is well underway with the phase 1 already rolled out and running.

### **Outlook**

The Oman market continues to remain upbeat with the announcement of several projects in the Roads, Airports, Water & Wastewater and the Power generation and transmission sectors. Galfar has the capability to meet this demand and the challenges posed by the competition.

The Company remains confident of growing. Galfar's Order Book stood at RO 465 Million at the beginning of the year 2010. This along with anticipated orders where Galfar is well placed will call for increased resource requirements for which Galfar remains adequately prepared.

The appreciably healthy order book during the beginning of the year is indicative of further significant order booking prospects for the year and we are confident of acquiring many more contracts during the year.

EPC segment will remain one of the key focus areas for growth in the coming years. With the enhanced capabilities to handle large scale EPC jobs, and being well placed technically and commercially in few of the contracts under negotiations, we have reasons to believe that in this year Galfar will accomplish significant achievements in the EPC business sector.

We have active presence in all the sectors namely Oil& Gas, Roads & Bridges, Civil, Utilities and Services including Operation and Maintenance, and have the preparedness to take up any challenge whether in Roads, Ports, Airports, Power, Water and Wastewater Sectors. We have establishments in every part of Oman, be it Jabal Akhdar, Musandam, Hasik, Sohar, Sur, Duqm or Salalah to start up projects swiftly.

Galfar's execution experience in prestigious large scale jobs with high end technological challenges like Kauther Gas plant, Harweel Cluster Project and contracts & EPC in Lakhwair and Qarn Alam etc. have placed us in a unique position amongst all our competitors.

With the delivery of high quality buildings ,hotels, museums, large show rooms etc. we have added to our credentials evidences of high level workmanship coupled with quality execution and management capabilities. The Bank Muscat Head Quarters would also stands out as a great example after completion.

This kind of versatility in operations and the wide logistic base are difficult for others to establish thus making Galfar a trusted one stop solution provider for our esteemed customers.

Galfar's Indian operations have taken off with two projects already being awarded to the Galfar consortia. We expect these operations to grow significantly in the Public Private Participation (PPP) models as well as cash contracts in Roads, , Ports, Airports and the Oil and Gas sectors.

We are now exploring the North African region and in particular Libya with a view to acquire projects in the Oil and Gas sectors. We also expect to be involved with the infrastructure projects in this region, however all such projects are likely to materialize towards the last quarter of this year.

**Dr. P Mohamed Ali**

**Managing Director**