

Management Discussion and Analysis Report 2014

GCC Economic Scenario

The age of oil-driven abundance seems to be changing in the Gulf region. Apparently the decline in oil price is directing Governments' focus towards deeper economic diversification and strategy to boost economic growth. The objective is to create a multiplier effect by exploiting the socio-economic potential of the massive investments planned in the Gulf region. For example, it has been announced that over \$ 200bn is expected to be invested in over 40000 Km of rail across the GCC. The vision is to create the infrastructure and enabling environment to accelerate economic growth and attract companies, manufacturers, human resources and capital into the GCC economies. Oman is expected to be a significant beneficiary in this scenario.

Oman Economy

Oman Budget 2015 is aimed towards driving and sustaining growth. It is expected that real growth for 2014 will be around 4.4% and will increase to 5% in 2015. This includes a budgeted 5.5% growth in non-oil activities. Despite the deep reduction in global oil prices, Oman's 2015 budget comes with the commitment that critical projects will remain on track and that projects aimed towards economic diversification and stimulated economic growth will continue to be supported.

Announcement of continuing investment in Duqm, the Sohar – Al Buraimi section of the railway project and several major road projects is noteworthy. Budget also speaks of several significant tourism projects, including a number of hotel developments and the Oman Convention and Exhibition Centre, in Muscat.

In general, business environment for construction companies appears positive and supportive.

Galfar Overview

Galfar Engineering and Contracting SAOG is carrying out works of around USD 1 Billion per year. We stay committed to the Omanization agenda through planned employment opportunities and employee development through quality training. Also we remain focused on our goal to support the growth of Small and Medium Enterprises (SME).

Our resource mobilization capabilities continue to be our major strength. The equipment spread available within Galfar remains unparalleled in the local market. Each year the fleet is brought up-to-date for executing the actual workload.

Main Objectives and Operational Results

Galfar's objectives are always aligned with the policies of the Sultanate. Our aim is to delight our stakeholders through our committed efforts to deliver our projects in time in strict compliance with safety and quality standards.

Company, through its efforts to support SMEs, has been able to network with a large number of SMEs in the construction sector in Oman and add In Country Value.

Galfar is committed to achieve excellence in Quality, Health, Safety and environmental protection.

The Company, including its subsidiaries has recorded turnover for the year 2014 RO 372 m (2013: RO 412 m) with profit after tax RO 0.2 m (2013: RO 7.6 m). The parent company's turnover for the year 2014 is RO 354 m (2013: RO 394 m) and the profit after tax is RO 1.2 m (2013: RO 6.9 m).

Galfar has five subsidiaries and three associates in operations. The performance of the subsidiaries as follows. Galfar Engineering & Contracting India Pvt. Ltd., which is engaged in construction activities in India, recorded a turnover of RO 16 m (2013: 13 m) with profit after tax RO 0.1 m (2013: RO 1.9 m). Galfar Aspire Readymix LLC, which produces ready mix concrete, recorded a turnover of RO 17 m (2013: RO 15 m) with profit after tax RO 1.1 m (2013: RO 1.1 m). Aspire Projects and Services LLC which is a specialized engineering and services company had a turnover of RO 3.0 m (2013: RO 2.1 m) with profit after tax RO 0.3 m (2013: RO 0.2 m). Al Khalij Heavy Equipment & Engineering LLC which specializes in hiring out of equipment recorded a turnover of RO 1.8 m (2013: RO 1.9 m) with profit after tax RO 0.1 m (2013: RO 0.1 m). Galfar Training Institute LLC which specializes in the field of training Omanis in various trades recorded a turnover of RO 0.9 m (2013: RO 1.1 m) and incurred loss RO 0.1 m (2013: 0 m).

Human Resources

We aim to accomplish employee development through transparent and harmonious HR policies, and maintain a motivating work environment and retain talent. Our goal is to be seen as the most preferred employer in the construction sector. Among the construction companies in the private sector in the Sultanate, Galfar has the largest number Omani personnel.

Omanization and Training

For over 41 years Galfar has been a committed partner in the progress of the Sultanate of Oman in the Oil and Gas, Roads and Bridges, Civil and Marine Infrastructure and Utilities and Services sectors of the construction industry. Our Omanization policies are directed towards development, performance and steady growth within the organization.

Quality, Health, Safety and Environment:

Our company continues to maintain the competitive edge in Quality & HSE Management in the contracting industry in Oman through our management systems certified for compliance with ISO 29001:2010 (Petroleum & Petrochemical Sector specific standard), ISO 9001:2008 (Quality), OHSAS 18001:2007 (Health & Safety) and ISO 14001:2004 (Environment) standards.

In addition to our ASME - 'U' & 'R' certifications, we have also been placed as an approved subcontractor in AVME list of PDO for fabrication of Pig Launchers & Receivers.

We have worked 87 million man hours and have driven 106 million kilometers collectively during the year, in our projects throughout the country.

Despite exposure to this enormous amount of activities & challenges, our performance continues to be encouraging; our Lost Time Injury Frequency recorded during the year is 0.23 (lowest ever recorded and lower than the set limit of 0.4). Road Traffic Accident Frequency of the company is also lower than the limit set for the year (2.41 against 3.0) and lowest ever achieved.

We have also recorded several achievements in terms of man hours worked without Lost Time Injury in our projects / units. The significant ones are 40 million man hours of Oil & Gas and EPC Unit and 22 million man hours of Off-plot Delivery Contract.

We have conducted companywide campaigns during the year 2014, focusing on promoting HSE compliance and Empowerment to stop unsafe work in addition to Toolbox Talks improvement, Behavioral Safety awareness sessions and various Quality & HSE trainings in-house.

Management commitment to HSE protection, camp hygiene & employee welfare, subcontractor management and vehicle / equipment related incidents are the improvement areas currently under particular focus for which actions are addressed in Corporate HSE Plan for the year 2015.

Risks

Risks remain an integral part of the construction business in the region. One of the major risks is the delay in receipt of our outstanding payments. This has led to a significant increase in our borrowings and interest costs. We are working hard and closely with government departments at all levels to collect our payments against the client-certified invoices for the completed jobs.

Additionally we face risk of delay in completion of our jobs due to various external reasons like delay in government approvals, changes of scope and approval for variation orders. These factors are outside our control and they have negative impact in many cases and they are potential threats to our profitability.

Higher salaries in other countries in the Arabian Peninsula are driving away our expatriate workforce. This trend is also a threat to our operations.

Salaries and wages form a significant part of our costs. Government regulations require year on year increase in salaries and wages. We strive to maintain a minimum, but highly productive, workforce and price our tenders accordingly.

Internal Control Systems

In 2014 we have made a notable progress in putting adequate internal control systems and monitoring processes in place to ensure that our business is conducted in a transparent manner. The new Manual of Authority has been rolled out and it will be updated whenever required.

The Management assures that it is fully aware of its responsibility towards all the stakeholders of Galfar.

Corporate Social initiatives and Campaigns

Galfar has always been conscious of its responsibilities towards the society. We have over the year carried out CSR activities on several fronts. One of the main focus as always has been "Road Safety". We have supported several campaigns which include small organizations involved in spreading social awareness in locations as far of as Salalah. Also we have contributed to safety campaigns integrating efforts together with the Royal Oman Police.

Another main area of focus has been the contributions made towards organizations encouraging small and medium enterprises. SME enhancement has received direct impetus from His Majesty Sultan Qaboos himself and organization like ours together

with the Chamber of Commerce are leaving no stone unturned to nurture and hand hold them to succeed and grow.

We have also contributed towards several efforts being made by the Ministry of Health in fighting infection, nursing conferences, and many others. Our efforts in continuously supporting the Oman Forum which is the most focused programs in “Career Growth of Omani Youth” has helped us in understanding the changing environments in our dynamic and growing Sultanate. We will continue these and other efforts through 2015 while remaining modest in our assertion of our contributions in such CSRs.

Outlook

Outlook for the construction industry in Oman appears good. Budget 2015 indicates that Government is going ahead with the works that have been planned. We expect that the oil price will recover to some extent in the second half of the year and from that perspective, activities in the Oil & Gas Sector may continue at a high level.

Several road projects are seen to be in the pipeline and we stand a good chance to win some of them during the year 2015. Market for civil works presents a significant opportunity for works and we expect to have a good share in this area also. Civil work is expected to grow phenomenally with Hotels, Hospitals and Heritage Centers being planned for construction in the coming years. Water and wastewater is another sector where, because of our expertise, we have a cutting edge over our competitors as we have been executing many such treatment and conveyance projects all over Oman.

Galfar's Order Book position is healthy and stands at RO 675 million at the beginning of the year 2015.

Galfar is also a reputed facilities management provider in the Sultanate, commanding a high level of client retention and steady growth in the last two decades. We offer a full range of facilities and asset management services with innovative solutions tailored to cater to clients in different sectors. Galfar provides operation and maintenance services to a majority of sewage treatment and desalination plants in Oman. Most of these plants are the ones constructed by Galfar.

Performance of our subsidiaries is good and there is ample scope to increase their competitiveness and standing in the market.

Aspire Projects and Services LLC, is engaged in providing specialized Facilities Management services for establishments. It will focus on energy saving, water cycle management, alternative power and several such green energy initiatives.

Galfar Aspire Readymix LLC has expanded its operations to Sohar & Duqm in 2014. It has also set up a permanent establishment at Rusayal for Muscat operations. It is planning to be self-reliant in some raw materials by commencing Grinding Units for GGBS and having own aggregate source. It also aims to be the local producer of GGBS thereby getting qualified for its product in the specifications of all major clients / consultants in Oman. The company is also plan to commence an additional Plant for a Block Unit in Muscat.

The Indian operations of Galfar have created significant value and they continue to remain a key growth area as the demand for infrastructure projects is continually growing. Galfar is trying to establish its footprint in India in all the major sectors and particularly in Oil & Gas and other infrastructure projects.

We salute His Majesty Sultan Qaboos, who in the 44 years of his commendable rule has transformed Oman into a powerful modern economy in the region. We shall endeavour to reach even higher standards of project delivery through continuous improvement in our processes and we wish to lead by action in Omanization as a true Omani enterprise.

Galfar's broad image as a premier Omani company with its international presence is without any comparison. We have the capability to deliver projects in all the sections of engineering and construction industry with high quality standards in a safe and timely manner to the entire satisfaction of all its stake holders.

Hans Erlings
Chief Executive Officer