

Director's Report

Dear Shareholders,

I am pleased to welcome you all on behalf of the Board of Directors to the Annual General Meeting of Galfar Engineering & Contracting SAOG and to present to you the Annual Report for the Year ended 31st December 2014.

Business environment is undergoing changes which have slowed down the decision making process in general. This has adversely affected the Company. The Board is deeply concerned with the declining financial performance of the Company and has taken strategic steps to improve the situation by focusing specifically on the settlement of Company's outstanding dues and claims, and execution of projects in time and within budget.

The Company has substantially completed the MC5 Runway works of Salalah Airport Project and will be delivered for operational use soon.

The Company's 100% subsidiaries have been performing well and our strategy of having subsidiaries for specific activities has generated value addition and stakeholders' satisfaction. The company is now planning to have more such subsidiaries to concentrate on specific activities. One such activity envisaged is to concentrate on water projects.

Galfar has qualified along with our consortium/joint venture partner for Oman Rail project, but our JV partner decided not to submit due to some technical matters.

Economic Environment

Oman Government is keen to maintain the economic growth despite the recent decline in international oil prices. This is reflected in its budget for 2015, wherein the provision for expansion in Oil and Gas production has increased to over RO 2 Billion. Companies in the private sector engaged in oil extraction have also announced their investment plans. This augurs well for growth in the Oil and Gas sector. The budget also provides for continuing infrastructure projects including tourism and road projects. Your company is actively pursuing these opportunities.

Subsidiaries:

Galfar Aspire Projects & Services LLC and Galfar Aspire Readymix LLC, two of the wholly owned subsidiaries of Galfar in Oman have achieved good financial results. In addition to catering to the needs of Galfar, they have achieved 51% of their turnover from non-Galfar revenues.

Galfar India, a wholly owned subsidiary of Galfar Oman, is executing two DBFOT road projects of RO 76 Million through our 100% subsidiary SPV companies, Salasar Highways Private Limited and Kashipur-Sitarganj Highways Private Limited

Operations

Galfar maintains its position as one of the leading contracting companies in the Sultanate of Oman.

We have been facing procedural constraints in the process of collecting our ageing receivables. Therefore, the Company's average collection period has increased from 210 to 259 days. This has led to increased bank borrowing and interest cost. The Company has intensified its collection and follow up efforts at all levels, the results of which are expected to be seen in 2015.

Certain projects were scheduled to be completed in December 2014. However, due to reasons beyond our control these works could not be completed, resulting in the Company incurring additional costs which has impacted our bottom line.

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

In RO Million		
Particulars	2014	2013
Gross revenue	372.510	412.408
Profit from Operation	12.660	21.036
Net Profit After Tax	0.197	7.584

Omanisation

Galfar is committed to the development of Omani Nationals, and currently employs 4491 Omani nationals. It is actively pursuing recruitment, training and retention of Omani Nationals in the technical and managerial cadres.

The Training Centre at Al Hail is engaged in training and skill development of Omanis for the construction industry and this adds to the In Country Value.

Corporate Structure and Governance

At the last Annual General Meeting of the Company in March 2014, the share holders had duly elected a new board of nine members, including three new members, viz. Mr. Abdul Qadir Askalan, Mr. Mohiuddin Mohamed Ali, and Mr. Raiz Basheeruddin. The Board has formed two new committees viz. Supervisory and Follow up Committee (SAFCOM) and Human Resource Committee (HRC) and re-constituted the Internal Audit Committee.

The Company has appointed a new CFO, Mr. Ram Mohan N. with effect from 31st August 2014.

The Company has implemented the Code of Conduct and Whistleblower Policy during the year. This was recommended by the external consultant appointed by the Board of Directors to review and strengthen the internal control system and corporate governance. Companywide awareness program has been rolled out and uploaded in the company's website.

Galfar has in place various internal systems and manuals to assist the management in day to day operations. These are reviewed and updated from time to time. A comprehensive corporate governance report is included in the Annual report of 2014.

Health, Safety and Environment

Galfar is pleased to report that it has achieved a significant milestone of 40 million man hours without Loss Time Injury in the Oil & Gas and EPC Unit. Galfar Management Systems are certified for compliance with ISO 29001:2010, ISO 9001:2008, OHSAS 18001:2007 and ISO 14001:2004 Standards.

Outlook

The outlook for the construction industry in Oman remains robust. The government continues its plans to go ahead with various infrastructure and services projects.

Roads & Bridges

We have been awarded the following projects:

Barka – Nakhal Road	-	RO 65 Million
Dualization of Nizwa-Ibri Road	-	RO 28 Million
Batinah Tunnel	-	RO 22 Million

Further, the Taqa-Mirbat contract, awarded for RO 40 Million, has received the project commencement order.

This provides a stable base for the Roads & Bridges Unit.

Oil & Gas

Prospects for Oil & Gas sector is bright in view of the increase in government's planned expenditure.

- Our Off-Plot Delivery Contract (ODC) with PDO will expire in August 2015 and an offer for extension till March 2016 has been received.
- There are other clients in the private sector with whom the company is engaged in providing services.
- We have also been awarded the contract for 132KV OH line for British Petroleum (BP) for USD 10 Million, in February 2015.

At the beginning of the year, the Company had an order book backlog of RO 675 Million. In addition, we expect to bag projects during the year which will further strengthen our order book position.

On Record

We pray for His Majesty's health, long life and early return to his beloved Sultanate.

As an Omani Public Company, we are thankful to His Majesty's Government for their continued support.

We thank the Banks & Financial Institutions, Capital Market Authority, esteemed clients, suppliers, sub-contractors and shareholders for their cooperation and continued support.

We also thank the employees and management of the company for their commitment and dedication.

Salim Said Hamad Al Fannah Al Araiimi
Chairman