

Directors' 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 2015.

Overview

The Company is deeply concerned with its declining performance over the last few years, which has largely arisen from unprecedented delays in closing out projects and delays in payment of receivables from clients, mainly the Governmental entities. These factors are well known but not resolved till now and Galfar and all other contractors are affected by long outstanding receivables, including that of certified receivables.

Some claims are also pending due to the changes in government legislation and ministerial decisions like increase in minimum wages for National workforce. The time taken by the client and consultants to settle contractual matters has become exorbitantly longer than it was few years ago. At the same time these delays in payments do not affect our contractual rights

To defend the rights of the company we have initiated a number of arbitration cases. While this may take some time and incur costs, it should lead to a fair conclusion.

Your Company has initiated a transformation program to achieve a sustainable improvement of its performance and operational efficiency. In this context, Roland Berger, a leading global strategy consultancy with a strong track record in operational, organizational and financial transformation of companies, has been appointed in December 2015 for a long term mandate.

Key building blocks of the transformation program include organizational transformation and enhanced talent management, enhanced liquidity management and assets optimization, overhead cost reductions, productivity improvement and lean on-site execution, supply chain management optimization, and information technology transformation.

Galfar's Board of Directors is fully committed to the rigorous implementation of the transformation program over the next 12-18 months, with tangible results expected in Q2 2016 and better operating results in Financial Year 2016. In parallel the

transformation program will drive cost savings. Based on the company's leading market position and confirmed order book of over RO 640 m at end of 2015, Galfar's revenues for 2016 are expected to be above 2015 levels despite an increasingly challenging market environment.

Operations

During the year, the Company was awarded new projects worth RO 134 m mainly in the Oil & Gas sector. The major contracts awarded are – 'Construction and installation of gas gathering system' by BP Exploration Ltd. for RO 42 m, 'Site preparation services at Duqm Refinery for RO 32 m and 'Mukhaizna civil work services' by Occidental Oman for RO 20 m. Currently, the Company is in final discussion with clients and main contractors for oil and gas and petrochemical projects and expects to win work in these areas.

The Company has completed Ras al Hadd airport and phase 1 of Salalah airport, Hallaniyat island port and road network and many other road, building and electrical network projects. Some of these completed projects were loss making due to many changes in deliverables or non-approval of borrow pits for road works.

During the year the parent company has provided RO 31.917 million towards impairment of receivables, retention and accounted fair value loss on Forex Forward Contract of RO 1.229 mln, which is made in line with IFRS requirements and company's accounting policies. Out of these provisions, the major portion is a provision for Muscat Expressway and Central Corridor projects. The other provisions come from other contracts which could not be financially closed for a long period. These provisions are made without prejudice to the company's right to recover these dues through amicable settlement or arbitration proceedings.

The summary of the financial performance of the company (including group companies) is as follows:

Particulars	In RO millions	
	2015	2014
Total Revenue	345.234	372.510
Profit from operations (before impairment of receivables, retention and debts)	10.673	13.320
Profit / (loss) for the year	(28.859)	0.197

The Board has taken necessary steps to strengthen the company's financial position and has mandated Oman Arab Bank as Issue Manager for convertible bonds or any other instrument.

Further to support the company's Business Plan for the coming years, the Company has decided to appoint a Lead Financial Advisor for financial re-engineering as well as to arrange necessary banking facilities including term loans.

The company has formed a Core Collection Group to improve the collections position and draw up specific action points to reduce the receivables cycle time.

Subsidiaries & Associates

Galfar Aspire Projects & Services LLC and Galfar Aspire Readymix LLC, wholly owned subsidiaries of Galfar in Oman, have achieved good financial results. In addition to catering to the needs of Galfar, during the year 2015 they have achieved 67% of their revenues from non-Galfar jobs.

The Fully Owned subsidiary Galfar Engineering & Contracting India Pvt. Ltd (GI), is carrying out road construction activities and has an order book of RO 76 m as at 31st Dec 2015.

The parent company along with its subsidiary, Galfar India, have two fully owned Special Purpose Vehicles (SPVs) as subsidiaries namely, Salasar Highways Private Limited and Kashipur Sitarganj Private Limited. These SPVs are currently constructing on Design, Build, Finance, Operate and Transfer (DBFOT) basis two roads, viz. i) two-lane road on the Fatehpur-Salasar section of National Highway 65 in the State of Rajasthan, and ii) four laning of road in the Kashipur-Sitarganj section of National Highway 74 in the States of Uttarkhand / Uttar Pradesh. Construction of these projects is expected to be completed in early 2017.

In the three Associate SPVs, viz. MTPL, GAEPL and SJEPL, created with other partners for the construction of Highway Roads in India on DBFOT basis, the Company holds 26% share. Construction has been completed in the two SPVs, namely MTPL and GAEPL and toll collection is going on. Although the present toll collection is below the estimated level we expect collections to improve in the years to come.

The road infrastructure projects in India are expected to increase in the coming years and offers a good opportunity for growth.

For the first time since acquiring 26% shares in 2010, Galfar Kuwait recorded a profit for the financial year 2015. Two legacy projects were handed over to the client in the year 2015. The Company has been awarded a project for construction of roads and bridges for the New Refinery Project in Kuwait for a value of KD 19.5 million.

Omanisation

Galfar is committed to the development of Omani Nationals. The Company employs 3830 Omani Nationals and continues to actively recruit, train and retain them in technical and managerial cadres.

Corporate Structure and Governance

A report on corporate governance, management discussion and analysis as well as auditor's report confirming the compliance with the provisions of code of corporate governance are included in the Annual Report of the Company.

Quality, Health, Safety and Environment

The Company continues to maintain its certification to ISO 9001 (Quality), QHAS 18001 (Health & Safety), ISO 14001 (Environment) Standards and ISO 29001 (Petroleum & Petrochemical Sector specific standard).

The Lost Time Injury Frequency (LTIF) of 0.17 recorded during the year is the lowest annual LTIF ever achieved by the Company and is amongst the best in the industry. We have worked without LTI 50 Million man hours in Oil & Gas projects and 16 Million man hours in Civil & Marine Infrastructure Unit.

Corporate Social Responsibility

The Company has contributed significantly to road safety campaigns throughout the country.

Outlook

In spite of the low oil prices which have resulted in the slowing down of some projects, the government continues to go ahead with various infrastructure and services projects which are aimed at diversifying the economy and stimulating economic growth. In addition the oil and gas downstream projects are at an all-time high.

The Company has tendered for various projects and expects its fair share of contracts to be awarded. It may be mentioned that Petroleum Development Oman (PDO) has extended the Off-plot Delivery Contract (ODC North Oman) effective from 1st April 2016 to 31st March 2018. This is a Service Contract in which Galfar expects to generate revenue of around RO 120 Million.

On Record

The Directors take this opportunity to thank the customers, shareholders, suppliers, bankers, business partners/associates, financial institutions and the Government of Sultanate of Oman for their consistent support and encouragement to the Company.

On behalf of the Directors, I convey my sincere appreciation to all employees of the Company and its subsidiaries and associates for their hard work and commitment. Their dedication and competence has ensured that the Company continues to be a significant and leading player in the contracting industry.

The Directors are thankful to His Majesty's Government for its continued support and we pray for His Majesty's health and long life.

Salim Said Hamad Al Fannah Al Araiimi

Chairman

