

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 31 December 2016.

Overview

The Company is deeply concerned with the financial results 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, as well as 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 fuel prices and the minimum wages for National workforce. The time taken by the client and consultants to settle contractual matters has become significantly longer than it was few years ago. At the same time these delays in payments do not affect our contractual rights but as per the interpretation of the applicable International Financial Reporting Standards ('IFRS') provisions have to be made for them.

To protect the rights of the company we have initiated a number of arbitration cases. Since the last report, two arbitration cases have been concluded and the awards were in favor of Galfar. Three other cases have been amicably settled.

The transformation programme led by the Strategy Consultant Roland Berger, has continued throughout the year and most of the initiatives have been implemented. This includes a new organization structure and many new processes related to the more efficient use of resources and employee retention and motivation. Current focus is on lean on site construction and increasing output of people and plant. Due to prolonged non receipt of certified payments, which ultimately results in an increase in the costs to completion of the affected projects the Board and management have had to consider how the progress of works will need to be aligned to expected inflows..

Operations

During the year, the Company was awarded new projects worth RO 267 million. The major contracts awarded were: the Yibal Khuff Project for PDO (RO 115 million), the Duqm Fishery Port for SEZAD (RO 56 million), the Adam Grid Station for OETC (RO 5 million), the Raysut WRP Upgrading for SSDS (RO 12 million), and a number of operation and maintenance packages for PAEW. These awards continue to diversify our project portfolio into expected growth sectors. During the year, the company has completed 16 major projects amongst others the site preparation for the new Duqm refinery.

During the year the parent company has provided RO 6.8 million towards impairment of receivables and retention and RO 6.1 million for impairments of investments, which is made in line with IFRS requirements and company's accounting policies. These 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:

In RO millions		
Particulars	2016	2015
Total Revenue	340.9	345.234
Profit from operations (before impairment of receivables and, retention)	9.918	10.673
Profit / (loss) for the year	(10.823)	(28.859)

The Board and management continues to explore avenues to strengthen the company's financial position in a challenging external environment. In particular, the Board is working with management to reduce overhead expenses in line with market realities. These efforts are expected to reduce cash outflow and improve the operating financial results going forward.

Subsidiaries & Associates

Galfar Aspire Projects & Services LLC and Galfar Aspire Readymix LLC, wholly owned subsidiaries of Galfar in Oman, have achieved good financial results, from both the parent company and external revenues.

The Fully Owned subsidiary Galfar Engineering & Contracting India Pvt. Ltd (GI), is completing its road construction activities, with an order book of RO 27 million as at 31st December 2016 (FY15: RO 76 million). Galfar India continues to experience high tendering activity emanating from strong long-term infrastructure investments in India.

The parent company along with its subsidiary, Galfar India, have two fully owned Special Purpose Vehicles (SPVs) as subsidiaries namely, Salasar Highways Private Limited (SHPL) and Kashipur Sitarganj Highways Private Limited (KSHPL). 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 2017.

In the three Associate SPVs, viz. Mahakaleshwar Tollways Pvt. Ltd (MTPL), Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL), and Shree Jagannath Expressway Pvt. Ltd (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.

Associate company, Galfar Engineering & Contracting Kuwait KSC again recorded a profit for the financial year 2016, with the company looking to explore additional opportunities that exploit the Group's combined capabilities where investment remains strong, particularly in infrastructure and oil & gas sectors.

Omanisation

Galfar is committed to the development of Omani Nationals. The Company employs 3723 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.

Corporate Social Responsibility

The Company has contributed significantly to local communities wherever we deliver our projects. In addition, we are active in supporting innovation and safety campaigns throughout the country.

Outlook

The order book of the company stands at RO 650.1 million (FY15: RO 641.70 million) out of which RO 236.3 million (FY15: 150.8 million) is related to oil and gas sector.

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