

31 st Decembr 2021	DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021	
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Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Directors report on the performance of Galfar Engineering & Contracting SAOG ('the Parent Company') and its subsidiary and associated companies (collectively 'the Consolidated Group') for the year ended 31 December 2021:

	(RO '000s)			
	Parent Company		Consolidated	
	Dec, 2021	Dec, 2020	Dec, 2021	Dec, 2020
Revenue	177,382	196,940	187,949	208,922
EBITDA	18,536	(8,699)	16,687	(9,073)
Operating profit / (loss)	8,441	(21,124)	5,150	(23,181)
Profit / (loss) before tax	4,634	(26,111)	1,279	(28,180)
Net profit / (loss) after tax	4,634	(26,111)	1,255	(28,268)

Operations

For the year ended December 2021 the Parent Company achieved net profit of RO 4.63 Million compared to losses of RO 26.11 Million for the same period last year. This improved performance is on account of various initiatives taken by the Company as part of its turnaround strategy to re-organize, improve projects performance and implement stringent cost controls. The positive bottom-line results came despite various challenges such as drop in revenues by approximately 10% compared to the previous year 2020, continued COVID-19 challenges and cash flow constraints due to late receipt of payments.

By the end of 2021, the Parent Company has certified overdue receivables of more than RO 42 million, majority of which are related to long-completed transportation projects and waste water network projects. The delay in receiving the overdue amounts continue to exert significant strain on the Company's cash flow, which resulted in suboptimal execution of certain projects and delay in completion of others. As a result, revenue was lower than planned and lower than previous year 2020.

For the year ended December 2021, Galfar has received new project awards worth RO 147 million and RO 59 million of additional work orders through variations and extensions of ongoing projects. Despite the economic situation and reduction of spending in public projects, Galfar continues to maintain significant projects pipeline of RO 405 million. Within this order book the company still waiting to receive the commencement order for projects awarded in previous years such as Dualization of Haima-Thumrait Package-4 Project (Awarded July 2020), Wadi-Alyen Water Network Project (Awarded July 2019) and Muscat Airport Southern Runway Refurbishment Project (Awarded October 2021), for which commencement orders continue to be delayed.

The Board and Management continue to explore opportunities to reduce operating expenses, to maintain market competitiveness and to improve the financial results whilst strengthening the Company's financial position. Company resources are optimized continuously to align with the financial situation and the Company succeeded to reduce its costs considerably. While revenues reduced by 10% during the year costs were reduced by more than 19%, hence the positive bottom line.

Our subsidiary companies in Oman which includes Aspire Readymix, Aspire Projects and Al Khalij Heavy Equipment incurred losses of RO.3.45 Million for the year ended December 2021 compared to losses of RO 2.25 for the year 2020. Our associate company in Kuwait made a loss of RO 166K for the year ended December 2021 as compared to a profit of RO 174K for the year 2020. The Parent Company continues to make 94% of the entire Group Business.

Future Outlook

The Board and Management are determined to turnaround and improve the financial performance of the company with continued focus to implement the Company's turnaround strategy six priorities including Restructuring & Reorganization, Efficiency & Cost Savings, Financials & Liquidity, Diversification & Capability, Technology & Innovation, and Public Relations & Stakeholder Management.

As flagship for Oman's contracting and engineering business, Galfar is looking forward firmly to build on its strength and to continue supporting the Government and the local market endeavors for economic growth and in pursuit of important development and infrastructure projects across various sectors. After a significant contraction in the last two years, Oman's economy is anticipated to make a positive recovery over the coming years, propelled by the roll-out of Value-Added Tax (VAT) and higher oil prices compared to last years. With VAT now becoming effective and a strong and stable oil price to continue in 2022 and beyond, we expect Government spending in development and infrastructure projects to grow further.

The Board and Management continue to explore avenues to strengthen the company's financial position in a challenging and highly competitive economic environment. As part of the company's turnaround strategy, ongoing measures to control manpower and overhead expenses, and improve efficiencies in project execution have contributed to reducing overall cash outflow and improve the operating financial results in 2021. Going forward, Management expects to maintain a solid project pipeline in excess of RO 400 millions with a significant number of tenders under evaluation across a diverse array of sectors and clients. We reasonably expect to be successful in a number of those which will ensure stability and sustainability of our strong market position.

In addition, Galfar has identified various diversification opportunities in Construction Technology, Energy, Minerals and other sectors that will provide long term sustainability and growth opportunities for the Company in the future. Recently and in collaboration with our partners we are pleased to have positioned Galfar firmly in the future of 3D Printing Technology and its growing application.

Galfar shall continue its crucial role as a true partner in development and as a company of national interest through its well-established local capabilities, through its vast efforts to develop and employ Omanis in one of the most challenging sectors, through its collaboration with the wide local supply chain and various SME(s), and through its corporate social responsibility programs.

Gratitude & Appreciation

We express our sincere appreciation and gratitude to the Government under the wise leadership of His Majesty Sultan Haitham bin Tariq and for all the efforts taken by the Government to affirm the Country's fiscal position. Galfar has been instrumental in the development of Oman's infrastructure and various national objectives over the past four to five decades and is determined to continue so in the future.

As closing remarks, we would like to take the opportunity to thank all our esteemed stakeholders for their continued support and trust on Galfar. Our sincere appreciation and recognition also to the entire Galfar workforce who are driving the results achieved and the transformation being at the forefront of Galfar operations all across the Country.

Majid Salim Said Al Fannah Al Araimi

Chairman