

Management Discussion and Analysis Report

Overview

Galfar Engineering and Contracting SAOG, continues to be one of the largest multi-disciplined engineering & contracting company in the Sultanate of Oman, despite the entry of various new players in the market.

Main Objectives and Operational Results

The Company has developed the capacity and capability to execute the most challenging jobs in the various streams of infrastructure development. An external consultant assisted the company for improving its operational efficiency, particularly in the areas of plant cost and availability, setting progress targets and daily monitoring and cost control. Focus on improvement will continue relentlessly.

The Company's experience in the three major construction & infrastructure sectors of, Oil & Gas, Roads, Bridges& Airports and Civil & Utilities remains unparalleled by any other competitor. The turnover of the Company including subsidiaries was RO 307.222 million in 2011 as compared to RO 371.527million in 2010. The Company recorded a profit after tax of RO 5.26million in 2011 as compared to RO 6.00million in 2010.

During the year 2011 the cost for quality manpower and the corresponding recruitment costs increased significantly which is due to the shortage of quality manpower in Oman and the Indian Subcontinent. Additional costs were incurred due to implementation of the changes in working conditions in the oil and gas sector and the changes in the new Oman Labor Law.

Galfar Engineering & Contracting SAOG has three subsidiaries the performance of which is as follows. Al Khalij Heavy Equipment & Engineering LLC which specializes in hiring out of equipments recorded a turnover of RO 1.700 Million in 2011, as compared RO 1.805 million in 2009. Galfar Engineering & Contracting India Pvt. Ltd., which is engaged in construction activities in India, recorded a turnover of RO 4.034 million during the 12 months period ended 31st December 2011as compared to RO 10.121 million during 21 months period ended 31st December 2010. Galfar Training Institute LLC which specializes in the field of training Omanis in various trades recorded a turnover of RO 0.806 Million during the year 2011 as compared to RO 0.971during the year 2010.

Human Resources

Human Resource has been the one of the main pillars in enhancing the performance of the company. The company has a highly qualified, experienced and motivated work force to cater the current requirement and the growing future prospects. The company employs over 20,000 employees at site, across various functions and levels. The company's commitment towards Omanisation is without a parallel and Galfar is one of the largest employers of Omani workforce in the private sector.

Quality, Health, Safety and Environment

Our Quality & HSE Management Systems have been reviewed and restructured so that they remain relevant and comprehensive to meet business expectations.

In order to maintain our competitive edge in the Oil & Gas industry, we remodeled our Quality Management System to comply with the requirements of ISO 29001:2010 (Petroleum & Petrochemical Sector specific standard) and we are now certified to this international standard in addition to our ISO 9001:2008 (Quality), OHSAS 18001:2007 (Health & Safety) and ISO 14001:2004 (Environment) management system certifications.

During year 2011 we have worked 93 million man hours and have driven 117 million kilometers collectively in our projects throughout the country. Lost Time Injury Frequency (LTIF) recorded is 0.5 which meets the limit set for the year.

Company has recorded several achievements in terms of man hours worked without Lost Time Injury in its projects. The significant ones are 15 million safe man hours in Oil & Gas Unit, 9 million safe man hours in Hasik-Shuwaimiyah Road Project & Off –Plot Delivery Contract and 6 million safe man hours in Seeb Network Project.

We are reviewing the performance on a monthly basis and initiating actions for continual improvement.

Risks

Management of Risks through suitable mitigation processes and careful planning continues to be of great importance to our existence in the construction industry.

The volume of work available in the market makes it attractive for new players to enter the market. Also the decline of developmental activities in the neighboring countries due to the global economic slowdown has positioned Oman as an attractive place for business. Notwithstanding this we expect our 2012 results to be better than 2011.

Our resource mobilization capabilities continue to be our major strength. The equipment spread available within Galfar remains unparalleled in the local market. Augmenting this periodically has been an ongoing exercise and Galfar continues to invest a significant sum in adding equipment to the fleet.

The Company has a policy of reviewing its Fixed Assets needs either to add new capacity or to replace Plant and Equipment. During the current year the addition to fixed assets was RO 15.938 Million.

Internal Controls Systems

The Board assures that there is a detailed delegation of authority to the various levels of management and adequate corporate control of the organization. The Management is also fully aware of its responsibility towards all the stakeholders. The Company addresses these issues by maintaining clearly defined operating procedures which are updated as and when necessary.

The process of implementation of the new ERP system is well underway with the phase 1 already rolled out and phase 2 expected to be rolled by mid of 2012.

The company had engaged the services of M/s Ernst & Young to develop the Accounting Manual, which will further strengthen our internal control systems by clearly defining the policies and the procedures to be adopted and followed. This has been approved by the management and will be implemented in 2012.

Outlook

The Oman market continues to remain upbeat with the announcement of several projects in the Roads, Airports, Water & Wastewater and the Power generation and transmission sectors and the Government has made clear its commitment to infrastructure development in the coming Five Year Development Plan.. Galfar has the capability to meet this demand and the challenges posed by the competition.

The Company's order book position is healthy and the Company is confident of doing similar volume of jobs during the forthcoming years and focus on its growth plans. Galfar's Order Book stood at RO 552 million at the beginning of the year 2012.

The appreciably healthy order book during the beginning of the year is indicative of further significant order booking prospects for the year and we are confident of acquiring a number of significant contracts during the year. In addition in the first quarter of 2012 the first package of the Batinah Expressway at Rial Omani 138.929 Million was awarded to Galfar.

We have active presence in all the sectors namely Oil& Gas, Roads, Bridges& Airports, Civil, Utilities and Services including Operation and Maintenance, and have the preparedness to take up any challenge whether in Roads, Ports, Airports, Power, Water and Wastewater Sectors. We have establishments in every part of Oman, be it Jabal Akhdar, Musandam, Hasik, Sohar, Sur, Duqm or Salalah to start up projects swiftly.

Having capabilities in all sections of construction industry and Galfar's execution experience in prestigious large scale jobs with high end technological challenges like Nimr Compressor Plant, QarnAlam steam projectetc., we are placed in a unique position amongst our competitors. Working in difficult terrain and frontiers, like HasikSuwaymiyah road project, is one of our trademarks

With the delivery of high quality roads, hotels, harbours, sewage plants and networks. we have added to our credentials evidences of high level workmanship coupled with quality execution and management capabilities.

This kind of versatility in operations and the wide logistic base are difficult for others to establish thus making Galfar a trusted one stop solution provider for our esteemed customers.

The Indian operations of Galfar created significant value and is expected to remain a key growth area as the demand for roads and highways is phenomenal.

Our subsidiary in Lybia has been dormant during the period and will be revived as soon as the conditions are favourable.

Galfar is also looking at Saudi Arabia, considering the substantial opportunities available there, as a first step towards this we recently registered a branch office there.

Under the visionary leadership of His Majesty Sultan Qaboos, who in 41 years of his rule has turned this country into a powerful modern country well known in the region, we endeavor to reach even higher standards of project delivery through continuous introspection of our procedures and systems and will lead by action in Omanisation as a true Omani enterprise.

Galfar's broad image as a premier Omani company with international presence is without comparison and we can 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 stake holders.

Dr. P Mohamed Ali

Managing Director

