

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 2017.

Overview

The Company is concerned about the financial results in 2017, notwithstanding that the operational performance of the parent company improved. The profit before depreciation, interest and tax (PBDIT) in 2017 for the Parent Company has improved to 10.03% as against 8.76% in 2016. The company achieved noticeable improvements in cost control and planning and will relentlessly follow this improvement through in 2018. Insufficient funds to execute projects efficiently has affected the results negatively. Our contract receivable situation has improved significantly but still 61 mln RO is held up due to non-payment of undisputed dues. Reduction of receivables and outstanding bonds and guarantees has been and remains our main target for improvement of the bottom line result. Such a reduction would reduce the 2017 finance cost of 8.2 mln RO and is a must for robust return to a profitable business.

Some claims due to the changes in government legislation and ministerial decisions like increase in fuel prices and the minimum wages for National workforce are outstanding. The time taken by some clients and consultants to settle contractual matters and close out contracts has become significantly longer than it was a few years ago. This affects the recovery of retention money which again affects the cash position. The delay in projects close out and the associated 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.

Till the date of reporting the Company has received arbitration awards in its favour and the results are covering the income recognized in our books.

Operations

During the year, the Company was awarded new projects and extension/variation of worth RO 106 million. The major contracts awarded were

Batinah Expressway Package 3 for MoTC (RO 26 million) and Birkat Al Mouz Grid Station for OETC (RO 17 million). These awards continue to diversify our project portfolio into expected growth sectors.

During the year the parent company has provided RO 5.3 million towards impairment of receivables and investment, which is made in line with IFRS requirements and company's

accounting policies. These mainly come from contracts which could not be financially closed for a longer 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 | |
|------------------------------|----------------|--------|
| | 2017 | 2016 |
| Total Revenue | 296.1 | 340.9 |
| Profit from operations | 6.3 | 2.9 |
| Profit / (loss) for the year | (5.8) | (10.8) |

The Board and management continues to explore avenues to strengthen the company's financial position in a challenging external environment. There are strict measures in place to control the manpower expenses and overhead expenses. These efforts are expected to reduce cash outflow and improve the operating financial results further 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 last two construction contracts and a consultant has been appointed for valuation of the Special Purpose Vehicles (SPVs) of road projects in India, with the aim of divesting them..

Associate company, Galfar Engineering & Contracting Kuwait KSC again recorded a profit for the financial year 2017, 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 3253 Omani Nationals and continues to actively recruit, train and retain these employees 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 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 483 million (FY16: RO 650 million) out of which RO 156 million (FY16: 236 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.


Majid Salim Said Al Fannah Al Araimi
Chairman

