

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 present to you the Annual Report for the year that ended 31 December 2018.

Overview

The Group's performance during the year 2018 has resulted in positive contribution to the equity and reduction in accumulated losses. The operational performance of the parent company has substantially improved. The profit before depreciation, interest and tax (PBDIT) in 2018, for the Parent Company has improved to 11.8% as against 8.4% in 2017. The net profit after tax for the parent Company has improved to RO 5.7 million in 2018 as against loss of RO 3.7 million in 2017.

The net reversal of provision for impairment of receivables amounting to RO 0.94 million has added to the reported profit as mentioned above.

The company achieved noticeable improvements in cost control and planning and will relentlessly follow this improvement through in 2019.

The liquidity issues of the Company continued on account of delay in receipt of certified payment from the Government and its related entities. The unpaid certified receivables were at RO 60 million at closing of the year. This has impacted ability to do business and has impacted our profitability due to the Company borrowing the overdue receivables

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.

The arbitration awards in favor of the Company are expected to be realized in 2019. Part of the arbitration amount has already been realized in the first quarter 2019.

Operations (Parent Company)

During the year, the parent Company was awarded new projects and extension/variation of worth RO 152 million. The major contracts awarded were:

- SSDC - Operation & Maintenance of Salalah Waste Water System & Treated Effluent Network (RO 13 million),
- Daleel - Provision of Construction Services for Daleel On-Plot Areas (RO 30 million),

- BP - Phase II Gas Gathering (RO 36 million),
- Petrofac - EPC of Buildings-Process and Non-Process - PKG 1 & 3 (RO 19 million) and
- Petrofac - Salalah LPG Project – Subcontract for CMEI Works Package-1 (RO 16 million).

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

Particulars	In RO millions	
	2018	2017 (Restated)
Total Revenue	289.1	293.1
Profit from operations	18.2	6.2
Profit / (loss) for the year after Tax	2.2	(6.5)

The Board and management continue 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.

With the Government in the process of boosting tax revenues with introduction of VAT, Excise Tax etc., the Company is preparing itself to realign its business process.

Subsidiaries & Associates

Post Balance Sheet date, the parent company has entered into a preliminary agreement with M/s PMA International LLC to sell all its investments in India. The company is expected to complete the process in the coming months. This deal will facilitate the company to concentrate on its core business in Oman and enhance value addition to the shareholders and stakeholders.

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.

Associate company, Galfar Engineering & Contracting Kuwait KSC again recorded profit for the financial year 2018. The parent company is aiming to explore additional opportunities, particularly in infrastructure and oil & gas sectors.

Internationalisation

As part of its strategic plan, in addition to hiving off investments in India, the Company continues to pursue international business opportunities in selected geography in MENA region with a view to diversify geographical concentration risk. During the year the Company

has established its wholly owned subsidiary at Kuwait and expected to get awarded certain projects in Infra and Oil and Gas sector.

Omanisation

Galfar is committed to the development of Omani Nationals. The Company today employs 3279 Omani Nationals and continues to actively recruit, train and retain these employees in technical and managerial cadres.

Corporate 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. The Company procured goods in Oman for RO 49.6 million and Subcontracts for RO 48 million.

Outlook

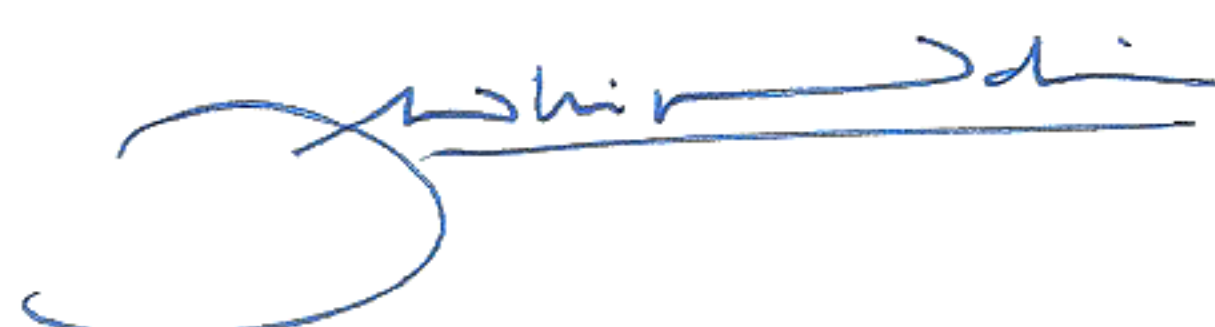
The order book of the company stands at RO 380 million (FY17: RO 483 million) out of which RO 177 million (FY17: 156 million) is related to oil and gas sector.

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.



Mohiuddin Mohamad Ali
Vice-Chairman