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 2019.

Overview

The Group's performance including discontinued operation during the year 2019 has resulted in net loss of RO 6.3 million in comparison to profit of RO 0.08 million in the year 2018.

The Parent Company's performance including discontinued operation during the year 2019 has resulted in net loss of RO 20.1 million in comparison to profit of RO 5.7 million in the year 2018. Parent Company's performance has substantially impacted due to provision, mandated by applicable IFRS requirement, for impairment of receivables and other current assets for an amount of RO 17.8 million. Management and Board is confident to collect the old outstanding receivables against which provision is created in the books of account resulting reversal of those provisions in the near future.

The company achieved certain improvements in cost control and planning and will relentlessly follow this improvement through in 2020.

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.

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 2020. Part of the arbitration amount has already been realized in the year 2019.

Operations (Parent Company)

During the year, the parent Company was awarded new projects and extension/variation of worth RO 229. The major contracts awarded were:

- **MOTC** - Additional Third and Fourth Lanes in the existing Rusayl-Nizwa Dual Road from Muscat Expressway Interchange to Al-sharqia Expressway Interchange (Part 1) (RO 86 million),

- **PAW** - Construction of Water Distribution Network for Wilayat Al Hamra and Bilad Sait at Al Dakhiliyah Governorate (RO 27 million),
- **Saipem SPA** - MEI Works for Sub-Package A & C – PKG 3-Offsite Facilities for Duqm Refinery Project, Oman (RO 24 million)
- **PAW** - Water Supply Scheme for Al Ayn, Sint & Seeh Al Maashi at Ibri & Bahla Wilayats (RO 21 million),
- **China Petroleum** – Raz Markaz Crude Oil Park (Phase 1), Construction of Access Road Pre-Site preparation, grading, levelling, Earth works and blasting works. (RO 14 million)

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

In RO millions

Particulars	**2019**	**2018** Restated
Total Revenue	248.8	289.1
(Loss) / Profit from operations	(14.7)	16.1
(Loss) / Profit for the year after Tax	(6.3)	0.08

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 going forward.

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

Subsidiaries & Associates

Pursuant to the approval by the shareholders in the EGM on the divestment of Indian investments, during the year the Company has signed the Sale Purchase Agreement with M/s PMA International. As of date the Company has received the advance and first installment amount. This deal will facilitate the company to concentrate on its core business in Oman and enhance value addition to the shareholders and stakeholders.

Associate company, Galfar Engineering & Contracting Kuwait KSC has recorded profit for the financial year 2019. 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 divestment from India, the Company continues to pursue international business opportunities in selected geography in MENA region with a view to diversify geographical concentration risk. The Company is expecting to get awarded a project at Kuwait through its wholly owned subsidiary at Kuwait, which was established in the previous year.

Omanisation

Galfar is committed to the development of Omani Nationals. The Company today employs 3,850 Omani Nationals and continues to actively recruit, train and retain these employees in technical and managerial cadres.

As part of improving Omanisation, 350 Omani staff were recruited in 2019. This includes 13 senior and middle management staff, 37 staff in various Omanised categories (by replacing expatriates) and 300 trainees. With the help of the National Training Fund, the newly recruited trainees are being given training to perform their roles effectively.

Plan for 2020 includes further improvements in Omanisation by recruiting more Omanis in the middle and higher level positions, continue the trainings to upgrade their skills, bring down their turnover below 5%, effectively address their grievances and recognize and reward star performers and long serving employees.

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 33 million and Subcontracts for RO 36 million.

Outlook

The order book of the company as on 31 Dec 2019 stands at RO 401 million (FY18: RO 380 million) out of which RO 111 million (FY18: 177 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.

Tribute to late His Majesty Sultan Qaboos bin Said bin Taimour, for his visionary leadership and wise guidance, which placed Oman firmly on the path to peace, prosperity and sustainable development over the past five decades. We pledge to fully support His Majesty Sultan Haitham bin Tarik and his government in their endeavors to build even further on this outstanding legacy in the years to come.

Majid Salim Said Al Fannah Al Araimi
Chairman