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 ended 31 December 2020.

Overview

The Group's performance during the year 2020 has resulted in net loss of RO 28.3 million in comparison to net loss of RO 6.2 million in the year 2019.

The Parent Company's performance during the year 2020 has resulted in net loss of RO 26.1 million in comparison to loss of RO 20.1 million in the year 2019. The performance was substantially impacted due to the COVID-19 pandemic, related idling of resources and additional costs, time and cost overruns in major projects. Management and Board is confident to collect the long outstanding receivables of RO 42 Million against which provision is created in the books of account, which will result in reversal of these provisions in the near future.

The year 2020 had been very challenging due to spread of COVID-19 infection. However, with concerted timely efforts taken by the organization through awareness videos, posters, campaigns, and vigilant monitoring of our day-to-day business activities, we were successful in containing the spread of COVID-19 within our workforce. Galfar adopted all the measures initiated by the Supreme Committee for Covid Management and aligned itself completely. In addition, Galfar was able to isolate heavily populated camps as and when required to prevent the spread of the virus and protect the health of the people as its first priority.

The objectives were clear to follow the rules being laid down and control the spread of the Virus. At all sites we managed to achieve controlled numbers of cases.

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 64 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. Though 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.

Operations (Parent Company)

During the year 2020, the Parent Company was awarded new contracts worth RO 135 million which includes the Construction of 16" Export Pipeline with Associated Facility from Oman Oil Company for RO 11.5 Million, Rehabilitation project Fahud Runway with PDO for approximate value of RO 9.4 Million, and 'Dualization of Adam / Thumrait Road Project – Part 4' for RO.115 Million. The award of these projects has strengthened the order book of the Company which stands at approximately RO. 376 Million as of Dec 2020. Combined with the Company's restructuring efforts this strong order book presents positive forecast for the company to pass through current economic crisis and to pursue growth, diversification and capability building in the future.

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

In RO millions

Particulars	2020	2019
Total Revenue	208.9	248.8
(Loss) / Profit from operations	(23.2)	(14.7)
(Loss) / Profit for the year after Tax	(28.3)	(6.3)

The Board and management continue to explore avenues to strengthen the company's financial position in a challenging external environment. Measures have been put in place to control the manpower expenses and overhead expenses which are expected to reduce cash outflow and improve the operating financial results going forward. The company has also implemented its turnaround Strategy and will follow it through in 2021.

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

Omanisation

Galfar prides itself to be the largest employer of national workforce in the private sector and leads in overall Omanization in the construction industry. The Company today employs more than 4000 Omani Nationals and continues to actively recruit, train and retain these employees in technical and managerial cadres.

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 37 million and Subcontracts for RO 51 million.

Outlook

Galfar approaches 2021 with an optimistic approach especially as the Company continues to maintain significant order book of jobs in hand at above RO 370 million (FY19: RO 401 million) out of which RO 43 million (FY19: 111 million) is related to oil and gas sector. Through implementation of various strategic objectives in the transformation strategy, the focus is to achieve positive return from this order book which will enhance the company financial position as well as further strengthening it by winning new contracts for each business unit.

Galfar is evaluating various options with regards to financial restructuring in order to improve the financial position and liquidity situation in the company in order to set the Company on a forward-looking path.

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.

Galfar pledges its full loyalty to His Majesty Sultan Haitham bin Tarik and his government in their endeavors to build even further on the outstanding legacy of the late His Majesty Sultan Qaboos bin Said bin Taimour, in the years to come.

Majid Salim Said Al Fannah Al Araimi
Chairman