Management Discussion and Analysis Report 2020

General Overview

The Sultanate economy, like other oil-exporting countries was largely affected by the global pandemic and the drop in oil prices. The construction industry in the region was facing major challenges prior to the pandemic due to projects decline and stiff competition within the regional market which is over crowded with players. Construction industry in the middle east is operating at one of the lowest construction margins in the world.

The declining credit rating resulted impacted the overall investment environment and resulted in the Country taking corrective measures to ease the economic consequences through a package of measures to maintain financial stability and support the affected sectors. Spending was cut down in development and connectional infrastructure projects.

The 2021 Oman budget prioritizes fiscal balance and economic diversification. It re-emphasizes the government's intention to engage the private sector in achieving sustainable economic and social development and to focus at enhancing non-oil revenues and rationalize public spending leading to fiscal sustainability.

Performance overview in 2020

Galfar initiated various measures to mitigate the impact of Covid-19 and low oil prices and initiated strategic transformations which included Organization restructuring & rationalization of resources, Re-alignment of its business units to market changes, Expanding the addressable market, and took steps for reducing fixed overhead costs. The company launched various project performance initiatives such as its Near-Term Sustainability Program to accelerate identification and implementation of quick win saving ideas, launched its Digitalization Drive towards digital transformation, and introduced Productivity Improvement Programs.

On the financial front Galfar made several adjustments to recognized revenue in few projects, resulting in a lowering of income and increasing its accumulated losses. The Company however managed to generate a positive cash flow during the year. The Company was successful in collecting certain long pending receivables from its clients. This has facilitated to reduce its bank borrowing to record lows. However, there are significant amounts of overdue receivables which yet to be collected especially from Government entities. Asset turnover ratio for the year is also very much improved in comparison to previous periods.

The Group Financial Statements for the year ended 31 December 2020 recorded a Turnover of RO 208.9 m (2019: RO 248.8m) with a loss after tax of RO 28.3m (2019: loss RO 6.3 m). The Parent Company's Turnover for the year ended 2020 was RO 196.9m (2019: RO 231.4m) with a loss after tax of RO 26.1m (2019: loss RO. 20.1m).

The performance of the subsidiaries as at the year ended 2020 are as follows:

Galfar Aspire Ready-mix LLC, which produces ready mix concrete, recorded a turnover of RO 13.8m (2019: RO 19.8 m) with a loss after tax RO1.2m (2019: RO 0.5 m).

Aspire Projects and Services LLC which is a specialized engineering and services company had a turnover of RO 3.9m (2019: RO 7.7 m) with a loss after tax RO 0.9 m (2019: profit RO 0.4 m).

Al Khalij Heavy Equipment & Engineering LLC which specializes in hiring out of equipment had a turnover of RO 1.3 m (2019: RO 1.7 m) and made a profit RO 0.001m (2019: profit RO 0.008 m).

During the year under review the Company has received new orders worth RO 135 Million and additional work within the available contracts worth RO 32m. This has contributed to increase the value of orders on hand as on 31 December 2020 above RO 376 million.

Business Scenario

In order to address the latest challenges and to position Galfar better to serve the market, a "Transformation Strategy" has been put into place to guide Galfar direction and focus in the future. The Operational Units have been reorganized to rationalize resources, to optimize cost, to align with changes in the market and to align with the diversification streams the Country has established as part of its 2040 vision.

Within its new business structure, the Company has four business units to build on Galfar strength and work on opportunities across the business spectrum:

- The **Energy & Industrial Business Unit** targets to strengthen the company presence in Oil & Gas and expand into opportunities in the wider energy and industrial sectors.
- The **Infrastructure Business Unit** will continue on Galfar's legacy as a prominent contractor in delivering various infrastructure projects in roads, ports and utilities.
- The **Civil & Environmental Business Unit** aims at further expansion into civil construction and environmental business opportunities.
- The **Investment Unit** will manage Galfar investments in subsidiaries and associates and will aim at creating a diversification value stream through carefully targeted investment prospects.

Galfar transformation strategy is launched with six main focus areas and strategic objectives under each of these focus areas. The focus areas include: restructuring & reorganization, efficiency & cost savings, financial & liquidity improvements, diversification & capability, technology & innovation and finally reputation & stakeholders.

Galfar has aligned itself to Oman's Vision 2040 and to ensure that we contribute in ways that would enhance sustainability and improve nationalization as well as provide technological advancement in our chosen fields. This will also enable Galfar to capitalize on its strengths of a vast asset base and infrastructure that the Company is holding.

Quality, Health, Safety and Environment

Galfar consistently maintains a competitive edge through its Management System certifications in compliance with International Standards ISO 9001: 2015 & ISO/TS 29001:2010 for Quality Management System, OHSAS 18001:2007 for Occupational Health & Safety Management System and ISO 14001:2015 for Environment Management System, which has given Galfar a distinctive recognition in the Industry.

Galfar's HSE performance for the year 2020 have been impressive with Lost Time Injury Frequency 0.17 against the set limit of 0.22 and Road Traffic Accident Frequent of 2.07 against the set limit of 2.20, despite the high exposure of 64.34 million-man hours worked and 57.91 million kilometers driven and other challenges we have faced in our work environment.

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.

Challenging and realistic QHSE Performance Indicators are set for the year 2021 to enable continual improvement of our Business Processes. Migration and certification of our Occupational Health & Safety Management to the new International Standard ISO 45001:2018 during this year will imbibe new confidence in our Business Stakeholders.

Human Capital

As part of its reorganization the **Human Resources unit was reorganized as Human Capital** to emphasize on our human capital and the pivotal role it plays in Galfar Transformation. Galfar is committed to developing its resource and maintaining its Omanization targets. Galfar aims to accomplish employee development through transparent and harmonious human capital policies, maintain a motivating work environment and retain talent. Our goal is to be seen as one of the leading employers offering satisfying career opportunities and an environment that thrives with dedication, creativity and innovation.

Despite the business turndown Galfar continued its uncompromised commitment to employment of nationals. In 2020 Galfar recruited close to 100 Omanis that were engaged through training for employment contracts. These recruitments included 9 senior and middle management staff and other technical categories. With more than 4000 nationals Galfar prides itself to be the largest employer of national workforce in the private sector and leads in overall Omanization in the construction industry.

Galfar outlook for 2021

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. 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.

Risks

As the risks have increased multifold, with the economic implication of the ongoing Covid-19 pandemic risk still looming large the construction sector faces the risk of higher cost of capital and increasingly difficult access to working capital in the future.

The delay in receipt of payment for major projects which has led to significant unpaid certified receivables which further increased since the beginning of 2020.

Galfar has a strong confirmed order book paired with a positive business development pipeline. However, an increasingly difficult macroeconomic context could cause clients to slow down or even stop ongoing projects and delay award of new projects.

The profitable delivery of projects relies on the right talent. Higher salaries in other countries in the Arabian Peninsula are driving away expatriate workforce and pose a risk to Galfar operations. At the same time, the construction sector is struggling in attracting experienced Omani nationals.

To mitigate risks, the Company is actively involved in risk management and impact of events on project progress is reviewed frequently.

Our gratitude and commitment

Galfar take this opportunity to thank all its stakeholders, 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 Galfar, the Management Team convey their sincere appreciation to all employees of the Company and its subsidiaries and associates for their hard work and commitment. Their dedication and competence have ensured that the Company continues to be a significant and leading player in the contracting industry.

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.

Hamoud Rashid Al Tobi
Chief Executive Officer