

Director's Report

Dear Shareholders,

I am glad to welcome you all on behalf of the Board of Directors to this Annual General Meeting of Galfar Engineering & Contracting SAOG and to present the Annual Report for the Year ended 31st December 2009.

Business Environment

2009 has been a demanding year on the construction industry as a whole. The Economic situation in Oman has weathered the international financial crisis with great strength and prudence. This has attracted several international players, new to Oman, which has made competition stiffer.

The economic activities related to development expenditure have been moving ahead steadily and the Government has been issuing tenders related to many projects continuously during the year 2009. Initiatives of the wise Government towards power- both generation and transmission, roads, Airports, health, water and environmental projects including the development of townships will definitely continue. The foreseeable needs in the port sectors are also expected to create construction related activities in the near future.

India too has been showing a very promising future in infrastructure development Projects. The contracting models unique to the local environment are rewarding and expected to generate reasonable margins. We expect our operations to grow significantly in the PPP models as well as cash contracts in Roads, Railway, Ports, Airports and the Oil and Gas sectors.

The Libyan market is looking promising for Oil and Gas Projects as the country plans to enhance its oil outputs substantially. Your company is about to position itself with local joint- venturers, and will look forward to projects towards the end of the year. With the excellent relations between the two countries, we expect to generate significant turnovers in the future from the North African Region and particularly Libya. These arrangements will be announced as soon as the same is finalized.

Operations

I take pride in mentioning that Galfar is the first ever Omani Contracting Company to have crossed the One Billion Dollar turnover mark. This establishes our capability to handle bigger projects and our capacity to grow. However, profit has been under pressure owing to increase in costs of Muscat Expressway Project and also the conservative policy being followed by the Company in recognizing claims pending settlement.

Details on the operating results of the Company for the year 2009 and outlook for the industry for 2010 are reflected in the 'Management Discussion & Analysis' report included in the Annual Report for the year 2009.

Subsidiaries

Galfar India a fully owned subsidiary started its full fledged operations during the current year.

Messrs Al Khalij Heavy Equipment & Engineering LLC, another subsidiary of the Company, engaged in transportation and logistics business.

The two training centers of Galfar at Sohar and Al Hail have now transformed into a separate entity called Galfar Training Institute LLC, as a subsidiary fully owned by your company. The two centers are still continue to train and qualify young Omanis to meet the growing challenges of the construction industry.

Omanisation

Galfar continues to be the leader in its commitment towards Omanization in the Private Sector with over 5,000 Omani nationals working at various levels in the Company. Galfar employs Nationals at all levels as Vice Presidents, Project Managers, Project Engineers, Business Development Officers, HSE advisors and many other key roles within the Organization.

Corporate Governance

Your Company follows high standards of Corporate Governance. A detailed Corporate Governance Report is included in the Annual Report for the year ended 2009.

Health, Safety and Environment

Your company also continues to be the leading light when it comes to Health, Safety and Environment. We also credit ourselves in taking care of our social responsibilities. Our track record in Safety cannot be paralleled and over the years we have continued our endeavour to provide a safe environment to all the workforce whether they be at site or in the camps.

The Company certification has now been upgraded to the current version which is ISO 9001:2008 Standards for Quality Management System, we have also been recertified to ISO 14001:2004. Further we have also been upgraded to the current version of OHSAS 18001:2007 Standards for Environmental Protection and occupational health and safety respectively.

During the course of the year 2009 your Company has driven 130 million kms and has worked 100 million man-hours across all units. Our Lost Time Injury Frequency (LTIF) for the year 2009 stands at 0.49 as against 0.76 in the year 2008. In PDO contracts alone we achieved nearly 20 million safe man-hours during the year.

Outlook

During the Year 2009 Galfar's order-book position registered a moderate growth, considering the delay in award of certain projects. Presently the order book stands at 465 Million.

With numerous projects both in the Oil and Gas and the other infrastructure development sectors already in the tender stage and likely to be tendered, we expect to consolidate and maintain our market position in 2010 and beyond.

Galfar will continue to maintain its market position as the largest National Contracting Company in Oman. With one of the regional Airports already awarded to us we are looking forward to more such prestigious projects coming our way. With the wise Government's keenness into development of Roads, Railway, Ports, Airports, water and wastewater and Power sectors we look forward to an optimistic future in the local construction arena.

We are concentrating in the infrastructure sector in the Indian market with having submitted several prequalification for Roads and Ports Projects in the Design Build Finance Operate and transfer (DBFOT) model. This is expected to enhance the group revenue and margins in the near future.

Galfar plans to take advantage of the existing relationship between Libya and Oman to further our business activities primarily in the Oil and Gas sector. Prospects in Libya will continue to grow as the country expects to increase Oil production as well as the demand for infrastructure growth with increased needs of its population.

On Record

We are grateful to His Majesty Sultan Qaboos Bin Said for his visionary leadership and providing opportunities for the private and public sector in participating in the development of the Oman's economy.

The Board would like to thank all Ministries, Capital Market Authority, Muscat Securities Market, Muscat Depository and Security Registration Company, Muscat Municipality, Royal Oman Police, Petroleum Development of Oman and other Clients in Oman and abroad, Commercial Banks and Financial Institutions in Oman and abroad where we have relationships, Consultants, Suppliers, and Service Providers of the Company, for their generous cooperation and continued support.

We would also like to thank all the employees of the Company for the effort extended to improve the company's turnover.

Salim Said Hamad Al Fannah Al Araiimi

Chairman