

Management Discussion and Analysis Report

Overview

Galfar Engineering and Contracting SAOG, continues to be one of the largest multi-disciplined engineering & contracting companies in the Sultanate of Oman.

A majority of our projects performed within the established industry standard margins. The complicated project which caused erosion of the margins has been substantially completed and put to use. The year 2010 also saw the entry of various new players in the market.

Main Objectives and Operational Results

During the end of 2010 Galfar had begun its initiative to optimise the organizational Effectiveness.

The Company has now the capacity and capability to execute the most challenging jobs in the various streams of infrastructure development. The company has engaged the services of an external consultants M/s Celerant, to assist the company in further improving its operational efficiency through various techniques of process improvements and cost control.

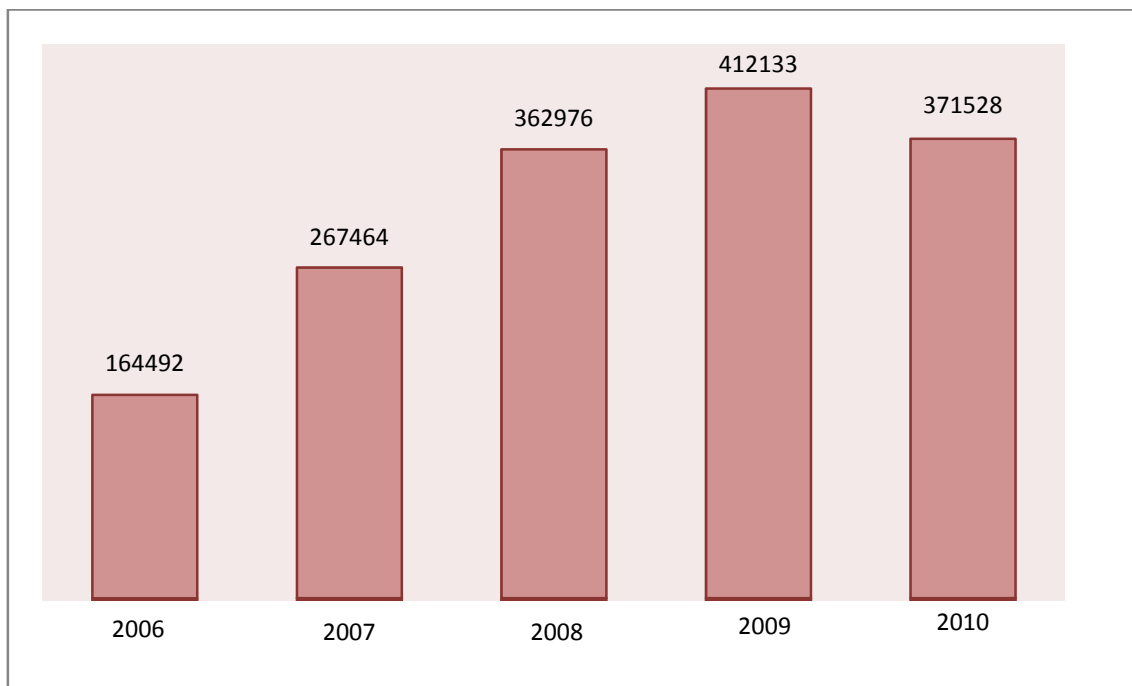
The Company's experience in the three major construction & infrastructure sectors of, Oil & Gas, Roads & Bridges and Civil & Utilities remains unparalleled by any other competitor. The turnover of the Company including subsidiaries was RO 371.527 in 2010 as compared to RO 412.133 Million in 2009. The Company recorded a profit after tax of RO 6.00 Million in 2010 as compared to RO 3.754 Million in 2009, showing a growth of 59.80%.

We have substantially completed the most challenging project, Muscat Expressway. The Company is in the process of resolving the pending issues with the Clients and the Clients' Engineers.

During the year 2010 the cost for quality manpower and the corresponding recruitment costs were on an unprecedented increasing trend which is due to the shortage of quality manpower in our main source area that is the Indian Subcontinent. This along with the increase in material costs and sub contract have built up significant cost pressures on the Company on the major cost heads.

The growth achieved by the company in the last five years is summarized below:

Contract Income in RO'000



Galfar Engineering & Contracting SAOG has three subsidiaries the performance of which is as follows. Al Khaliq Heavy Equipment & Engineering LLC which specializes in hiring out of equipments recorded a turnover of RO 1.805 Million in 2010, as compared RO 1.498 million in 2009. Galfar Engineering & Contracting India Pvt. Ltd., which is engaged in construction activities in India, recorded a turnover of RO 10.121 million during the 21 months period ended 31st December 2010. Galfar Training Institute LLC which specialize in the field of training Omanis in various trades recorded a turnover of RO 0.971 Million in the year 2010.

Human Resources

Human Resource has been the one of the main pillars in enhancing the performance of the company. The company has a highly qualified, experienced and motivated work force to cater the current requirement and the growing future prospects. The company employs over 27,000 employees across various functions and level. The company's commitment towards Omanisation is without a parallel and is reflected by the increase in the number of Omani employees to more than 4800 in the year 2010, making Galfar one of the largest employers of Omani workforce in the private sector.

Quality, Health, Safety and Environment

The Company's Quality, Health, Safety & Environmental Management System certifications have now been upgraded to the current versions which are ISO 9001:2008 for Quality Management, ISO 14001:2004 for Environmental Management and OHSAS 18001:2007 for Occupational Health & Safety Management. The Nizwa Industrial

Facility is certified for 'U' Stamp by the American Society for Mechanical Engineers (ASME) for the Construction of Pressure Vessels & parts thereof.

During the course of the year 2010, the Company's Vehicles have driven 137 million kms and the Company has worked 105 million man-hours across all units. Our Lost Time Injury Frequency (LTIF) for the year 2010 stands at 0.30 as against 0.49 in the year 2009. We have worked 15 Million man-hours without Lost Time Injury during the year 2010.

Risks

Management of Risks through suitable mitigation processes and careful planning continues to be of great importance in our existence in the construction industry.

The volume of work available in the market makes it attractive for new players to enter the market. Also the decline of developmental activities in the neighboring countries due to the global economic slowdown has positioned Oman as an attractive place for business.

Notwithstanding this we expect our 2011 results to be better than 2010.

Our resource mobilization capabilities continue to be our major strength. The equipment spread available within Galfar remains unparalleled in the local market. Augmenting this periodically has been an ongoing exercise and Galfar continues to invest a significant sum in adding equipment to the fleet.

The Company has a policy of reviewing its Fixed Assets needs either to add new capacity or to replace Plant and Equipment. During the current year the addition to fixed assets was RO 10 Million.

Internal Controls Systems

The Board assures that there is a detailed delegation of authority to the various levels of management and adequate corporate control of the organization. The Management is also fully aware of its responsibility towards all the stakeholders. The Company addresses these issues by maintaining clearly defined operating procedures which are updated as and when necessary.

The process of implementation of the new ERP system is well underway with the phase 1 already rolled out.

The company has engaged the services of M/s Ernst & Young to develop the Accounting Manual, which will further strengthen our internal control systems by clearly defining the policies and the procedures to be adopted and followed. This manual will be ready for implementation by mid of the year 2011.

Outlook

The Oman market continues to remain upbeat with the announcement of several projects in the Roads, Airports, Water & Wastewater and the Power generation and transmission sectors. Galfar has the capability to meet this demand and the challenges posed by the competition.

The Company remains confident of growing. Galfar's Order Book stood at RO 614 Million at the beginning of the year 2011.

The appreciably healthy order book during the beginning of the year is indicative of further significant order booking prospects for the year and we are confident of acquiring many more contracts during the year.

We have active presence in all the sectors namely Oil& Gas, Roads & Bridges, Civil, Utilities and Services including Operation and Maintenance, and have the preparedness to take up any challenge whether in Roads, Ports, Airports, Power, Water and Wastewater Sectors. We have establishments in every part of Oman, be it Jabal Akhdar, Musandam, Hasik, Sohar, Sur, Duqm or Salalah to start up projects swiftly.

Having capabilities in all sections of construction industry and Galfar's execution experience in prestigious large scale jobs with high end technological challenges like Kauther Gas plant, Harweel Cluster Project and contracts & EPC in Lekhwair and Qarn Alam etc., we are placed in a unique position amongst our competitors.

With the delivery of high quality buildings, hotels, museums, large show rooms etc. we have added to our credentials evidences of high level workmanship coupled with quality execution and management capabilities. The Bank Muscat Head Quarters has been handed over to the clients to the fullest satisfaction and the MEED has recognized Bank Muscat as a 'Quality Project' in the entire GCC.

This kind of versatility in operations and the wide logistic base are difficult for others to establish thus making Galfar a trusted one stop solution provider for our esteemed customers.

The Indian operations of Galfar which had taken off with one project awarded, has been awarded two more projects. The first project was completed five months ahead of schedule and with excellent returns. We expect these operations to grow significantly in the Public Private Participation (PPP) models as well as cash contracts in Roads, Ports, Airports and the Oil and Gas sectors.

We are now exploring the North African region with a view to acquire projects in the Oil and Gas sectors. We also expect to be involved with the infrastructure projects in this region, however all such projects are likely to materialize towards the last quarter of this year.

Under the visionary leadership of His Majesty Sultan Qaboos, who in 40 years of his rule has turned this country into a powerful modern country well known in the region, we endeavour to reach even higher standards of project delivery through continuous introspection of our procedures and systems and will lead by action in Omanisation as a true Omani enterprise.

Galfar's broad image as a premier Omani company with international presence, is without comparison and we can deliver projects in all the sections of construction industry – be it EPC or construction – with high quality standards in a safe and timely manner to the entire satisfaction of all stake holders.

Dr. P Mohamed Ali

Managing Director