

Director's Report

Dear Shareholders,

I 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 2010.

Business Environment

In 2010, Oman celebrated 40 years of growth and progress. The country also managed to stay clear of the economic downturn. The stable economy and the increased spending on infrastructure during the 8th Five Year Plan (2011-15) have attracted many competitors to already developed contracting community.

Infrastructure Projects in India are continuing at a rapid pace, the major thrust presently is in Roads and Ports. Many utility projects are being tendered out and these are being funded through external agencies/countries. After completing one road project six months ahead of schedule allowing us to collect toll earlier than planned and providing a good start, we have already signed another EPC contract with our own SPV company. In the third DBFOT Project in India (Bhubaneshwar-Chandikhole Road), we have taken on the role of Operation & Maintenance considering that this activity together with toll collection starts immediately without waiting for the construction to be over with.

Your Company Galfar has during the period acquired significant interest in a Kuwaiti construction company named Shaheen Alghanim Roads and Bridges contracting KSCC and its name has been changed into Galfar Engineering & Contracting-Kuwait KSCC. Presently the Company is executing the construction of a 25 km road in Boubyan Island.

Operations

Galfar has continued to be a preferred contractor in the Sultanate of Oman for many clients as we are considered as a reliable and safety conscious contractor.

Details on the operating results of the Company for the year 2010 and outlook for the industry for 2011 are reflected in the 'Management Discussion & Analysis' report included in the Annual Report for the year 2009.

Associates & Subsidiaries

Galfar Kuwait and the subsidiary, Galfar-Wazen General Contracting -Libya are new additions to the Galfar SAOG network along with Galfar India, a subsidiary with 99.9% shareholding.

Galfar Training Institute LLC, a wholly owned subsidiary of your company, plays a vital role in training young Omanis for the construction industry.

Al Khalij Heavy Equipment & Engineering LLC, the Company's subsidiary in Oman, engaged in transportation and logistics business has achieved turnover of RO 1.805 million during the year 2010 as compared to RO 2.089 million in 2009. More than 75% of this revenue is from services provided to Customers other than Galfar.

Corporate Governance

The Company follows high standards of Corporate Governance. A detailed Corporate Governance Report is included in the Annual Report for the year ended 2010.

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.

Outlook

During 2010 the Company bagged Riyal Omani 380m Million worth of Projects to maintain the order book back log at RO 614 Million at the starting of this year; this includes the strategic Project of Redevelopment of the Salalah Airport. Our endeavour will be to continue to maintain this level of order book while improving it in a sustainable manner. With numerous projects both in the Oil & Gas and the other infrastructure development sectors already in the tender

stage and likely to be tendered, we expect to consolidate and register a growth for Galfar in 2011 and the future.

The Government has planned major Road development projects including the dualization of many strategic corridors and construction of the New Batinah Expressway linking with the Muscat Expressway. These Projects and the upcoming development in the Ports and Harbour sector will form a very important part of Galfar's strategies in the near future in Oman. The Sultanate has also preparing itself for a major rail network. There are major activities planned in the Real-estate Market with Oman taking the lead in developments.

It is expected overall that the next five years should also see a marked expenditure increase in utilities with more and more water & power transmission and distribution systems being tendered out.

The Oil & Gas project scenario in Oman looks very promising even apart from the service contracts. With our EPC capabilities now being delivered in-house, Galfar has begun to seek every opportunity in the EPC projects being tendered out. In the Oil and Gas sector, PDO too has an ambitious plan to develop some of the low production fields using Enhanced Oil Recovery Techniques.

We continue to focus on the infrastructure sector in the Indian market with having submitted several prequalifications 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. We are also actively looking for projects in the Ports, pipelines in both Oil & Gas and Water Transmission sectors. We also expect opportunities in the dedicated rail freight corridor project and subsequent SEZs that have been on the anvil for some time. There are several opportunities in the privatized port projects especially in the western states where these terminals are being used for gas transfers to the industries.

While the Libyan market promises to be highly rewarding especially in the Oil and Gas sector, we will have to wait till abating of the present situation in the North African Countries as a whole.

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 Companies working in the Oil & Gas sector in Oman, Commercial Banks and Financial Institutions in Oman and abroad where we have relationships, Consultants, Sub Contractors, Dealers and all Clients of the Company, for their generous cooperation and continued support.

We would also like to thank all the employees, staff and management of the Company for the efforts extended to improve & enhance the performance of the Company.

Salim Said Hamad Al Fannah Al Araithi

Chairman