

Director's Report

Dear Shareholders,

AhlanvaSehlan,

On behalf of the Board of Directors, I welcome you to this Annual General Meeting of Galfar Engineering & Contracting SAOG and to present the Annual Report for the Year ended 31st December 2012.

Business Environment

Galfar leads the construction market securing some of the prestigious projects tendered out by the Government, amidst stiff competition from local and international companies.

The Business Environment looks bright with the announcement of several development Projects in sectors relating to Roads, Oil and Gas, Power, water, wastewater and other infrastructure.

Galfar is fully geared to execute the projects awarded through the established tendering practices. Galfar has successfully formed alliances and relationship with SMEs across the Sultanate through its established systems and practices, to be availed on projects based on their individual specializations and capabilities. Presently Galfar is sub-contracting more than 20% of its activities to local Omani SMEs, similarly over 50% of Galfar's revenue is spent on procurement activities within Oman. This Practice will continue and grow with Galfar's own growth in various construction sectors. Galfar has taken upon itself a responsibility to encourage and support the SME movement, being the prime requirement of the Government and His Majesty Sultan Qaboos Bin Said.

Your Company is one of the first to adopt the revised labour laws, enhancing salaries of Nationals. We continue to induct local Labour force who is ready to work in the construction sector and wish to grow with Galfar.

Galfar will continue to play a vital role in the Construction Industry in all sectors such as Oil and Gas, Roads, Bridges, Airports, Civil and Marine Infrastructure and Utilities and Services including Operation and Maintenance. The upcoming Building complexes, Railway, Roads and Tunnel Projects will be of particular interest for Galfar's advancement into futuristic technologies and mechanization.

In India we have secured various road projects in the BOOT sector with promising returns. We have completed one project, two projects under execution with partners and two projects

alone. During the year Galfar Engineering & Contracting SAOG Oman was awarded two projects on DBFOT basis worth RO 86 million. The portfolio is expected to grow in other countries such as Saudi Arabia. In Libya, the company is taking a cautious approach to commence operations.

Iraq in the meanwhile is being viewed by us with great interest, we have already begun various registration processes and are currently pursuing some jobs in which we have secured prequalification. Generally all such projects will be in the infrastructure sectors.

M/s Al Khalij Heavy Equipment & Engineering LLC, a subsidiary of the Company, engaged in transportation and logistics business has done well during 2012.

Aspire Projects and Services LLC, the wholly owned subsidiary of Galfar, has entered the Facilities Management sector, and Specialized Engineering Solutions. This previously untapped sector will open your company to avenues in Facilities Management, Alternative Power solutions, Green Energy solutions for the building industry.

Through “Galfar Aspire Readymix Company LLC”, we strive to deliver quality concrete to several projects in-house as well as external in several cities across Oman.

Operations

Galfar has continued to maintain its position as the number one contracting company in the Sultanate of Oman.

Details on the operating results of the Company for the year 2012 and outlook for the industry for 2013 are reflected in the ‘Management Discussion & Analysis’ report included in the Annual Report for the year 2012.

The summary of the performance of the Company (including Subsidiary) is as follows:

In RO Million		
Particulars	2012	2011
Gross revenue	336.50	307.22
Profit from Operation	17.87	11.83
Net Profit After Tax	9.21	5.26

Omanisation

Galfar continues to be an attractive proposition to nationals seeking long term and gainful employment in the private sector. We can now boast of Omanization at all levels with technically qualified youth working in Galfar.

Galfar seeks to provide a unique experience to individuals who join us, such that their careers grow through a process of continuous learning and on job training. A majority of this is achieved through “mentorship” by seniors in similar discipline.

The two training centers of Galfar at Sohar and Al Hail which have now grown into a separate entity, still continue to train and qualify young Omanis to meet the growing challenges of the construction industry.

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 2012.

Health, Safety and Environment

Our 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 the entire workforce whether they be at site or in the camps.

Outlook

During 2012 your company bagged Rial Omani 454 million worth of Projects to maintain the order-book back log at RO. 685 million at the beginning of this year. Our endeavour will be to continue to maintain this level of order book while bettering it in a sustainable manner.

There is a general optimism in the construction industry with the government having decided to proceed with the awards for many long pending projects in all the sectors of the construction industry.

There are several large road projects planned for the coming few years and Galfar is fully geared for competing and securing these.

Large scale expansion is planned in the water and electricity transmission and distribution and this too will form one of the target markets for Galfar.

The Oil and Gas projects scenario looks very promising even outside of the service contract. With our Engineering, Procurement and Construction capabilities now being delivered in-house, Galfar has begun to seek every opportunity in the Engineering, Procurement and Construction projects being tendered out.

Your company will pursue growth by participating in various projects in Roads, Oil and Gas , Power, Water, Wastewater and the other infrastructure development sectors already in the tendering stage and likely to be tendered.

To strengthen the Company's balance sheets and to support its long term growth the Board of Directors have recommended to increase the Issued and Paid-up Capital of the Company, by issuing on a rights basis, 1.5:10 Shares at a price of Baizas 280 (two hundred eighty) per share including an amount of 2 Baizas per share towards share issue expense. Consequently, the issued and paid-up share capital of the Company will go up, from RO 33 Million to 37.95 Million.

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 Clearing and Depository SAOC, 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, Suppliers and all Clients of the Company, for their generous cooperation and continued support.

We would also like to thank all the labour force, the staff and management of the Company for the effort extended to improve the company's performance.

Salim Said Hamad Al Fannah Al Araimi

Chairman