

Director's Report

Dear Shareholders,

Ahlan va Sehlan,

I wish to share with you that we-Galfar are now **forty** years in the construction business in Oman, with this note 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 2011.

Business Environment

Shareholders are aware of the changes that took place through the year 2011, while these have resulted in opening a great horizon for the future of the Sultanate, the entire year witnessed very few tender awards.

The promise of spending by the government in coming years was strengthened through public announcements which have provided much needed hope to the contracting industry. It is understood that the government stands solidly behind the local contractors and is committed to their development as well as the growth of small and medium enterprises.

Major project which were on the anvil are now certainly on track to be executed.

The entire industry has been observing a surge in development projects, in the roads sector, the water production and transmission, wastewater collection and treatment and power transmission sectors, the Ports and Airports sector as well as the Oil and Gas sector.

Your company has expertise to operate in all the above sectors. We credit ourselves with the foresight generated over the last forty years of operations in Oman to have developed in all fields. The Company's strengths actually compliment the development activities and have grown from strength to strength together. Galfar is the "partner in Progress" for the Sultanate of Oman.

The growth of infrastructure in India continues rapidly. We are continuing our efforts to secure projects in the roads, ports and other sectors in the design, build, operate sectors where margins are well secured and risks are mitigatable. These projects not only ensure our presence in the EPC parts of the work but also provide a fairly comfortable perpetual income for the duration of the concession. With the new system of qualifications in the roads sector, we are now qualified for projects which will be tendered out through the current year worth Rial Omani 300 Million alone and as consortia we can go far beyond these limits. Our quest for projects in the Ports sector continues and we are looking forward to a few container and material handling projects during the year 2012.

We avail ourselves of this opportunity to bring to your information that we have registered our branch office in the Kingdom of Saudi Arabia. We have many classification procedures to complete before we can effectively begin tendering processes. The Saudi Market as we all know is very large. Our focus will be infrastructure and oil and gas works.

Our company in Kuwait has now been resourced with a dedicated workforce with a new CEO and key staff. Our efforts will be to close out old projects and begin new ones in the Roads, oil and gas sectors.

M/s Al Khalij Heavy Equipment & Equipment LLC, another subsidiary of the Company, engaged in transportation and logistics business has achieved turnover of RO. 1.7.Million during the year 2011 as compared to RO 1.8 Million in 2010. More than 98% Of this revenue is from services provided to customers other than Galfar.

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 2011 and outlook for the industry for 2012 are reflected in the 'Management Discussion & Analysis' report included in the Annual Report for the year 2011.

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

In RO Million		
Particulars	2011	2010
Gross revenue	307.22	371.53
Profit from Operation	11.22	11.83
Net Profit After Tax	5.26	6.00

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 unique experience to individuals who join us, so as to permit an overall development 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 have now grown into separate entities however, 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 2011.

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 all the workforce whether they be at site or in the camps.

During the course of the year 2011 your Company has driven 117 million kms and has worked - 93 million man hours across all units. Our Lost Time Injury Frequency (LTIF) for the year 2011 stands at 0.50 as against 0.30 in the year 2010.

Outlook

During 2011 your company bagged Rial Omani 235 Million worth of Projects to maintain the orderbook back log at RO. 552 Million at the starting 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.

This has been fortified with the recent award of the First Package of the Batinah Expressway at Rial Omani 138.929 Million.

There are several planned expansions to existing Ports in the Sultanate. Galfar will target these as and when they are tendered.

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 EPC capabilities now being delivered in-house, Galfar has begun to seek every opportunity in the EPC projects being tender out.

Your company will endeavour to maintain a sustainable growth as it cruises through the fortieth year of its operations. We are hopeful that projects where Galfar is already lowest are awarded in the first quarter or atleast the early part of the second quarter.

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 register a fair growth for Galfar in 2012 and the future.

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.

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 staff and management of the Company for the effort extended to improve the company's turnover.

Salim Said Hamad Al Fannah Al Araimi

Chairman