



SALALAH PORT SERVICES CO. SAOG

DIRECTOR'S REPORT FOR THE QUARTER ENDED 31ST MARCH 2016

Dear Shareholders,

On behalf of the Board of Directors, I have the pleasure in presenting the unaudited consolidated financial results of your company for the quarter ended March 31, 2016 (Q1 2016).

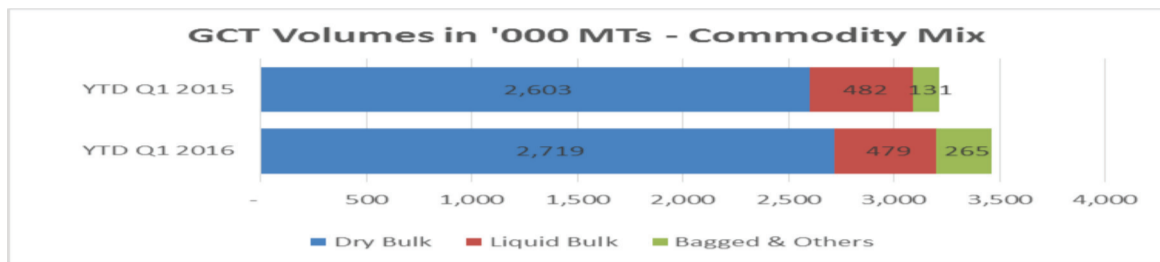
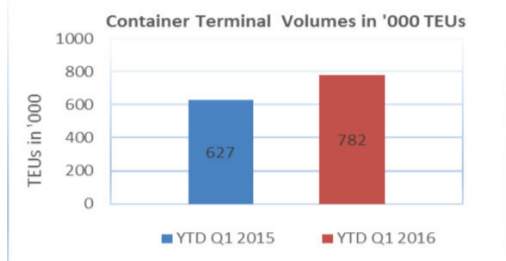
Company Performance

During Q1, 2016 Port of Salalah has achieved considerable volume growth at the General Cargo Terminal (GCT), as well as Container Terminal (CT) compared to the corresponding period last year.

The CT has handled 782k TEUs (Twenty-foot Equivalent Units) during Q1 2016, which is a 25% increase against the same period last year, due to ongoing increase in volumes from the one of our major customers. The Management has been pursuing an increase in share of business from existing customers and actively endeavors to attract new customers.

On productivity, the CT has registered consistent improvements. Berth Moves per Hour (BMPH) is at 95.18 which is an improvement as compared to the same period last year at 94.32. This showcases the organization's success in focusing on continuous improvements.

The GCT has handled 3.464 million tons of general cargo during Q1 2016, recording an increase of 8% as compared to Q1 2015. The major commodities handled are namely limestone, gypsum, methanol and cement, which are exported from Salalah to nearby markets, and continue to drive the general cargo business.



Financial Overview

Consolidated net profit for Q1 2016 was recorded at RO 1.567 million, which is 18% higher as compared to the corresponding period last year at RO 1.329 million.

Consolidated EBITDA was recorded at RO 4.169 million for Q1 2016 at an EBITDA margin of 30%, as compared to RO 3.871 million (31%) during same period last year.

Revenues of GCT have increased 15% compared to the same period last year whereas the CT revenue has increased by 8% as compared to corresponding period last year. The general cargo volumes handled at Berth 31 have been included in the container terminal financials, as in the previous year, due to the conversion of the berth into a container terminal facility.

Direct operating costs comprising direct manpower costs, repairs & maintenance costs, energy costs and marine costs, have increased by 11% compared to the corresponding period last year mainly due to annual salary increases and associated costs, increased power cost and overtime due to higher volumes and repair and maintenance of need based old equipment's.

Concession costs consisting of costs on account of ground rent, fixed and variable royalty, have marginally decreased by 2% compared to same period last year, mainly due to change in threshold limits as per concession agreements.

Administration and General costs have increased by 19% as compared to the same period last year mainly due to increase in salary increases and its associated costs.

Financing costs were 29% lower as compared to same period last year on account of repayment of debts.

Year 2015	Particulars	1 Jan 2016 to 31st Mar 2016	1 Jan 2015 to 31st Mar 2015
	Volume		
2,569	Container Terminal (TEUs'000)	782	627
12,543	General Cargo Terminal (Tons'000)	3,464	3,215
49,508	Revenue (RO'000)	13,792	12,563
	Profitability (RO'000)		
5,639	Net Profit before tax	1,844	1,507
5,182	Net Profit after tax	1,567	1,329
	Ratios		
10.50	Net profit margin (%)	11.36	10.58
0.029	Earnings per share (RO)	0.009	0.007
0.287	Book value per share (RO)	0.276	0.261

Employee Development

Port of Salalah is steadfast in developing and enhancing employees' productivity as people are the primary asset of the company. Various safety, technical, management and administration trainings are imparted to the staff.

Safety continues to be maintained as a top priority to ensure that employees continue to perform and deliver their tasks safely. Raising the level of safety performance has encouraged corrective behavior action plans for employees to perform safely at their work place.

Corporate Social Responsibility (CSR)

Company support charitable initiatives which impact large segments of communities. During Q1 2016 the company has committed in local initiatives with a significant focus on education, as well as SME development, environment, safety, health and sports.

Future Outlook

Port of Salalah is among the world's top transshipment ports and continues to provide an important service to the global supply chain. It provides a significant opportunity for businesses to benefit from the Salalah Hub network of multi-modal transport (sea-air-road) and Salalah Free Zone incentives. Focus of attention continues to address the improving the volumes and also diversify the customer mix.

The global shipping industry challenges are expected to continue and worsen in Q2. Due to previous orders of vessels that are now entering the market, carriers will add 2.6 million TUE of tonnage by the end of 2017. The demand forecasts continue to tumble, and the rates are unsustainably low. Mergers, bankruptcies and cost cutting initiatives are all but guaranteed in the Shipping industry for the rest of 2016. Many other ports in the world are also suffering, which is leading to unrealistically low expectations for handling rates as the pain is spreading to the Ports. The real question is when will the carriers run out of cash, and when will this contagion be noticed by the global economy?

Salalah has been relatively immune to this slow down so far, as carriers continue to transship to maximize their networks. However, we need to be prepared to deal with the very real possibility that if the market conditions continue on its current trajectory, it may eventually have a negative impact on our transshipment business. With reducing volumes of containerized trade globally, there will be less cargo to transship. We will need to maintain our current high levels of productivity and low rates to keep attracting business in this hypercompetitive climate.

On the GCT, The Omani mining operations are facing steep internal competition from other Omani Mining firms which has resulted continuous downward pressure on the rates to remain competitive globally. The Oman rail connection between Thumrait and Salalah is imperative to increase the speed and efficiency of transportation to the Port while lowering the costs on the miners to allow them to increase their profitability.

Whilst the Transshipment business is developing positively, the overall downturn in economy continues to have an impact on gate volumes. In April, the Omani customs and PEIE made significant effort to facilitate the business to Mazyouna from Salalah. One of the key challenges is the customs system, AL BAYAN, requires some customization to allow containers to be consigned directly to Mazyouna. Once that is complete, it may be able to realize the potential of this business. Yemeni cargo owners are increasingly requesting the Salalah Option, and we need to keep up the focus on this to capitalize on this opportunity in Q2.

The Company will continue to focus to increase our hinterland and to encourage more Import and Export volumes in and out of Salalah. We will continue to work to identify additional shipping lines that could benefit from utilizing Salalah as a network hub as well as seek out additional services from our current customers. He Company is focusing on developing value added services to provide additional opportunities to our customers and to add revenue. We continue our commitment to uphold the company's standing as an excellent corporate citizen.

Conclusion

On behalf of the Board of Directors and the Shareholders of the company, we record the sincere appreciation and gratitude to His Majesty Sultan Qaboos Bin Said, for his strategic vision, leadership, and his continued support, without which it would not have been possible to establish and maintain this world-class port.

We also thank our customers, investors, and partners at the Salalah Hub and Ministry of Transport and Communications, and members of the Government bodies we work together with.

We place on record our appreciation for the contributions of all our employees, who continue to perform with high distinction.

On behalf of the Board of Directors,

Ahmed Bin Nasser Al Mahrizi
 Chairman of Board of Directors
 Salalah Port Services Co. SAOG
 May 9, 2016

Unaudited consolidated statement of comprehensive income For the quarter ended 31 March 2016

31-Mar-15	31-Mar-16		31-Mar-16	31-Mar-15
US \$ '000	US \$ '000		RO'000	RO'000
32,662	35,858	Revenue	13,792	12,563
(18,790)	(20,794)	Direct operating costs	(7,998)	(7,226)
(4,139)	(4,422)	Other operating expenses	(1,701)	(1,592)
(4,931)	(5,862)	Administration and general expenses	(2,255)	(1,895)
146	756	Other income	291	56
4,948	5,536	Profit from operations	2,129	1,906
(1,038)	(738)	Finance costs	(285)	(399)
3,910	4,798	Profit for the period before tax	1,844	1,507
(463)	(720)	Income tax	(277)	(178)
3,447	4,078	Profit for the year	1,567	1,329
		Other comprehensive income		
		Items that will be never reclassified to profit or loss		
-	-	Revaluation of property, plant and equipment	-	-
		Items that are or may be reclassified to profit or loss		
15.40	-	Fair value change of investments	-	6
(358)	(200)	Net movement in cash flow hedges	(77)	(138)
(343)	(200)		(77)	(132)
(343)	(200)	Other comprehensive income for the period, net of tax	(77)	(132)
3,105	3,878	Total comprehensive income for the period, net of tax	1,490	1,197
		Profit attributable to :		
3,450	4,089	Equity holders of the parent	1,571	1,330
(3)	(10)	Non-controlling interests	(4)	(1)
3,107	3,888	Total comprehensive income attributable to :	1,494	1,198
(3)	(10)	Non-controlling interests	(4)	(1)
0.02	0.02	Basic earnings per share (US \$ / RO)	0.009	0.007

Unaudited consolidated statement of financial position As at 31 March 2016

31-Mar-15	31-Mar-16		31-Mar-16	31-Mar-15
US \$ '000	US \$ '000		RO'000	RO'000
		ASSETS		
		Non Current Assets		
194,619	181,137	Property and equipment	69,668	74,853
504	470	Intangible assets	181	194
16,377	772	Available-for-sale investments	297	6,299
13,000	39,000	Term deposits	15,000	5,000
224,501	221,379		85,146	86,346
		Current Assets		
3,703	4,457	Inventories	1,714	1,424
21,228	28,415	Trade and other receivables	10,929	8,165
10,000	13,000	Short term deposits	5,000	3,846
29,109	20,449	Cash and cash equivalents	7,865	11,196
64,040	66,321		25,508	24,631
288,541	287,700	TOTAL ASSETS	110,653	110,977
		EQUITY		
46,758	46,758	Share capital	17,984	17,984
7,666	7,666	Share premium	2,949	2,949
15,584	15,584	Legal reserve	5,994	5,994
(4,079)	(2,140)	Hedging deficit	(823)	(1,569)
257	252	Fair value reserve	97	99
55,924	60,730	Retained earnings	23,356	21,514
122,111	128,851	Equity attributable to equity holders of the parent company	49,557	46,971
91	41	Non controlling interests	16	35
122,201	128,892	TOTAL EQUITY	49,573	47,006
		LIABILITIES		
		Non Current Liabilities		
69,644	46,431	Loans and borrowings	17,858	26,787
19,263	16,944	Deferred tax	6,517	7,409
5,346	6,115	Employees' end of service benefits	2,352	2,056
2,059	853	Derivative financial instruments	328	792
96,312	70,343		27,055	37,044
		Current Liabilities		
50,439	63,963	Trade and other payables	24,601	19,393
17,569	23,215	Loans and borrowings	8,929	6,757
2,020	1,287	Derivative financial instruments	495	777
70,028	88,465		34,025	26,927
166,340	158,808	TOTAL LIABILITIES	61,080	63,971
288,541	287,700	TOTAL EQUITY AND LIABILITIES	110,653	110,977
0.68	0.72	Net assets per share (US \$ / RO)	0.276	0.261