



SALALAH PORT SERVICES CO. SAOG

DIRECTOR'S REPORT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2015

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 nine months period ended September 30, 2015 (YTD 2015).

Company Performance

Port of Salalah continues to achieve considerable volume growth at the General Cargo Terminal (GCT), which reflects the role of the port in supporting local businesses' expansion, and growth in Oman's balance of trade. This is keeping in line with the port's strategy to diversify the company's revenue flow while increasing local businesses' import and export by sea. However, transshipment volumes at Container Terminal (CT) were negatively impacted by regional competition combined with the slow growth of global transshipment trade and in third quarter impact of Khareef.

The GCT has handled 9.5 million tons during YTD September 2015 as compared with 7.8 million tons in same period 2014 at a growth of 22% in volume. The CT has handled 1.9 million TEUs (twenty-foot equivalent unit) during YTD September 2015 against 2.4 million TEUs during same period 2014.

The monsoon waves during the Khareef season traditionally negatively affect the productivity. The port invested in Cavotec Mooring systems and Shore tension system in two of its container berths to mitigate the negative impact of long waves and the management continue to evaluate further investments to manage a consistent productivity.

The organization continue to focus on making improvements through Total Productivity Management (TPM), to maintain operations of a world-class terminal.

Financial Overview

The **Consolidated Revenue** YTD September 2015 was recorded at RO 36.9 million, a decline of 11% compared to same period last year. **Consolidated EBITDA** YTD September 2015 was recorded at RO 10.9 million as compared to RO 12.8 million in same period last year, keeping a steady margin of 29%. The overall costs have been kept under control, with administrative and general expenses reduced by 26%. Net finance cost reduced by 29% due to payment of loan installments.

The **Consolidated Net profit** was recorded at RO 3.2 million YTD 2015, a decline of 29% as compared to corresponding period last year.

Year 2014	Particulars	1 Jan 2015 to 30 th Sep 2015	1 Jan 2014 to 30 th Sep 2014
	Volume		
3,034	Container Terminal (TEUs'000)	1,852	2,362
10,314	General Cargo Terminal (Tons'000)	9,502	7,779
53,533	Revenue (RO'000)	36,893	41,392
	Profitability (RO'000)		
6,221	Net Profit before tax	3,640	5,179
5,262	Net Profit after tax	3,204	4,489
	Ratios		
9.83	Net profit margin (%)	8.68 %	10.85 %
0.029	Earnings per share (RO)	0.018	0.025
0.270	Book value per share (RO)	0.274	0.263

Employee Development

Our people contribute to the success of the company. The company continues to invest in training and development of its workers, with a focus on enhancing the Omanization and skills development of local talent.

Corporate Social Responsibility (CSR)

As part of its ongoing commitment to support and contribute to the progress and sustainable development of local communities in which we operate, the company has supported number of CSR initiatives and programs YTD 2015.

Future Outlook

The outlook for general cargo business continues to grow with increase in export of dry bulk cargoes. We have had over one million tons of Dry bulk for six of the nine months in YTD September 2015. Eventually, if the economic downturn does continue, it may have a negative impact on our dry bulk exports from Salalah, but the volumes are expected to continue their upward trend.

The global economic downturn is negatively affecting demand across in the shipping industry, and this in turn creates downward pressure on global shipping rates. In addition to the lower demand, the introduction of the Mega-Container Ships (18,000+ TEUs vessels) have greatly increased the capacity in the market and has led to a cascading of supply.

So far, the port of Salalah has been more immune to the global economic downturn than other ports in the region, and this is primarily because we have seen a move by shipping lines optimize their networks using transshipment hubs rather than depending on direct services.

Additionally, we continue to see increases in limestone and gypsum exports in spite of worrying signs in building, commodities and steel prices globally. The local exporters have diversified their portfolios of buyers beyond India, which has helped mitigate the impact of the global drop in prices. Eventually, if the economic downturn does continues through 2016, it may have a negative impact on our dry bulk exports from Salalah, but the volumes for Q4 2015 and H1 2016 will continue to trend upwards.

The key to our future success is generating more gate Cargo (Import and Export). This will make Salalah more attractive to shipping lines who currently do not call Salalah, and will allow us the opportunity to handle more transshipment business. The development of the Salalah Freezone is an essential part of growing the local import and Export business, and we believe that the management of the Port and Freezone needs to be more closely allied.

We continue to work closely with Oman Rail to ensure that Salalah is included in the early development plans of the railway network. The construction of the Thumrait to Salalah line will drastically improve the supply chain from the Gypsum quarries to the Port of Salalah, and this will facilitate more growth in the Mining sector in and around Salalah. Additional, Salalah's location close to the major shipping routes has always been its key strength, so allying this with opportunities for cost effective transportation to Saudi Arabia and the GCC has the potential to transform Salalah into a dominant gateway port for the region.

We continue our commitment to uphold the company's standing as an excellent corporate citizen.

Acknowledgement

On behalf of the Board of Directors and the Shareholders of the company, I 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.

I also thank our employees, customers, investors and the members of the government we work together with daily.

On behalf of the Board of Directors,

Ahmed Bin Nasser Al Mahrizi
Chairman of Board of Directors,
Salalah Port Services Co. SAOG
November 09, 2015

Un-Audited Consolidated statement of comprehensive income for the nine months ended 30 September 2015

30-Sep-14	30-Sep-15		30-Sep-15	30-Sep-14
US \$ '000	US \$ '000		RO'000	RO'000
107,620	95,924	Revenue	36,893	41,392
(60,819)	(58,016)	Direct operating costs	(22,314)	(23,392)
(11,944)	(13,263)	Other operating expenses	(5,102)	(4,595)
(18,067)	(13,445)	Administration and general expenses	(5,170)	(6,948)
691	1,111	Other income	427	266
17,481	12,311	Profit from operations	4,734	6,723
(4,014)	(2,844)	Finance costs	(1,094)	(1,544)
13,467	9,467	Profit for the period before tax	3,640	5,179
(1,794)	(1,134)	Income tax	(436)	(690)
11,672	8,333	Profit for the period	3,204	4,489
		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		
16	(11)	Fair value change of investments	(4)	6
1,095	770	Net movement in cash flow hedges	296	421
1,111	759		292	427
1,111	759	Other comprehensive income for the period, net of tax	292	427
12,783	9,092	Total comprehensive income for the period, net of tax	3,496	4,916
		Profit attributable to :		
11,675	8,407	Equity holders of the parent	3,232	4,490
(3)	(73)	Non-controlling interests	(28)	(1)
		Total comprehensive income attributable to :		
12,786	9,166	Equity holders of the parent	3,524	4,917
(3)	(73)	Non-controlling interests	(28)	(1)
0.065	0.05	Basic earnings per share (US \$ / RO)	0.018	0.025

Un-Audited Consolidated statement of financial position as at 30 September 2015

30-Sep-14	30-Sep-15		30-Sep-15	30-Sep-14
US \$ '000	US \$ '000		RO'000	RO'000
		ASSETS		
		Non Current Assets		
201,961	192,151	Property and equipment	73,904	77,679
528	489	Intangible assets	188	203
728	751	Available-for-sale investments	289	280
10,400	13,000	Term deposits	5,000	4,000
213,617	206,391		79,381	82,162
		Current Assets		
3,782	3,548	Inventories	1,365	1,455
29,948	12,343	Trade and other receivables	4,747	11,518
28,309	59,959	Cash and cash equivalents	23,056	10,888
98,038	75,850		29,168	37,707
311,655	282,241	TOTAL ASSETS	108,548	119,870
		EQUITY		
46,758	46,758	Share capital	17,984	17,984
7,666	7,667	Share premium	2,949	2,949
14,690	15,587	Legal reserve	5,995	5,650
(4,781)	(2,951)	Hedging deficit	(1,135)	(1,839)
208	231	Fair value reserve	89	80
58,374	60,878	Retained earnings	23,415	22,452
122,915	128,171	Equity attributable to equity holders of the parent company	49,297	47,276
96	21	Non controlling interests	8	37
123,011	128,192	TOTAL EQUITY	49,305	47,313
		LIABILITIES		
		Non Current Liabilities		
96,415	58,038	Loans and borrowings	22,322	37,083
19,583	20,150	Deferred tax	7,750	7,532
5,242	5,529	Employees' end of service benefits	2,126	2,016
2,605	983	Derivative financial instruments	378	1,002
123,846	84,700		32,577	47,633
		Current Liabilities		
43,340	46,990	Trade and other payables	18,067	16,670
19,283	20,392	Loans and borrowings	7,843	7,417
2,176	1,968	Derivative financial instruments	757	837
64,798	69,349		26,667	24,924
188,644	154,049	TOTAL LIABILITIES	59,243	72,557
311,655	282,241	TOTAL EQUITY AND LIABILITIES	108,548	119,870
0.683	0.71	Net assets per share (US \$ / RO)	0.274	0.263