Port of Salalah

annual report **2008**

*Fact **File***

Container Terminal

- Total area of 729,000 m^2
- 72 Hectares of land developed
- 2,205 Metres quay wall
- 16 Metres harbour depth
- 16.5 - 18.5 Metres approach channel
- 500 Metres turning basin
- Vessel tracking system
- 7 Speed loaders
- 12 Fork lifts
- 17 Super post panamax cranes
- 4 Mobile harbour cranes
- 62 Rubber tyred gantries
- 172 Tractors and 205 Trailers
- 3 Tugs
- 9 Reach stackers
- 2 Top loaders
- NAVIS yard and vessel planning system
- Radio data terminals
- VHF radios

General Cargo Terminal

- 2,039 Metres quay length
- 5 Mobile cranes
- 9 Mafi trailers
- 19 Fork lifts
- Covered storage 12,000 m^2
- Open storage 200,000 m^2

Port Services

- Stevedoring of containers and general cargo
- Refrigerated container sockets
- Container maintenance and repair
- Tug services
- Pilotage
- Bunkering
- Warehousing
- Real estate leasing

Key ***Performance Indicators***

Port of Salalah	2004	2005	2006	2007	**2008**
Key operational data					
Crane capacity in TEU ('000)	2,220	2,530	2,530	3,485	3,600
TEU ('000)	2,229	2,492	2,390	2,639	3,068
Tonnes ('000)	1,534	1,788	2,308	2,783	3.469
Container Terminal vessel calls	1,253	1,386	1,321	1,537	1,607
General Cargo Terminal vessel calls	1,060	1,069	1,234	972	1,159
Headcount	1,311	1,491	1,442	1,723	2,336
Operational ratio analysis					
Net crane productivity	32.70	32.70	32.30	30.50	24.30
Gross crane productivity	29.00	29.80	29.40	27.90	21.70
TEUs handled per employee	1,700	1,671	1,657	1,532	1,313
TEUs/metre per quay p.a.	1,803	2,016	1,934	1,715	1,432
Cranes in operation	12	11	11	17	17
TEU per quay crane p.a.	185,712	226,519	217,273	170,249	180,489
Capacity utilization	100%	98%	94%	76%	85%
Key financial data				Figures in RO ' 000	
Revenue	24,308	26,737	27,918	32,388	41,446
Gross profit	12,168	12,841	12,570	14,441	16,815
Cash profit	7,835	8,113	8,285	9,544	10,819
Net profit / (loss)	3,624	4,095	4,154	4,555	4,528
Equity capital	17,984	17,984	17,984	17,984	17,984
Net worth	27,668	30,288	32,818	34,508	33,946
Term debt obligations	17,709	18,850	26,879	23,339	64,275
Financial ratio analysis					
Operating profit ratio	50%	48%	45%	45%	41%
Net profit margin	14.9%	15.3%	14.9%	14.1%	10.9%
Cash earnings per share (RO)	0.436	0.451	0.461	0.531	0.602
Earnings per share (RO)	0.202	0.228	0.231	0.253	0.252
Book value per share (RO)	1.538	1.684	1.825	1.919	1.888

Our Mission

- Providing efficient and reliable service to our customers
- Offering our colleagues a safe and inspiring place to work
- Contributing to local society and the Sultanate of Oman
- Delivering sustainable, profitable growth to our shareholders

DDB

His Majesty Sultan Qaboos Bin Said

Contents

*Directors' **Report***


MSC
MSC

Dear Shareholders,

On behalf of the Board of Directors, I welcome you to the Eleventh Annual General Meeting of your Company and take pleasure in presenting the annual report along with the audited accounts for the year ended December 31, 2008.

Year 2008 was exciting for Port of Salalah as it emerged to be a major transshipment hub in the world. Strategy of accelerated growth enabled integration of a new customer viz. Mediterranean Shipping Company during 2008.

Berth 6 measuring 519 meters in length was made operational during the year. With this, the infrastructure development of the current phase consisting 969 meters of quay wall and new break-water has been completed. Related superstructure development by your Company at a cost of RO 50 million will be completed during 2009. The company signed a Memorandum of Understanding with the Government of Oman for developing and equipping Berths 7 to 9 in the next phase of port development during the year.

During the year Container terminal handled 3.068 million TEUs, registering a growth of 16% over the previous year, while the General cargo facility handled 3.469 million Tonnes 25% over the previous year. Consolidated revenue at RO 41.4 million was 28% higher than the previous year. Consolidated net profit recorded at RO 4.5 million.

Profitability of the Company was challenged due to the investments required to accommodate exponential growth. The Company is now well positioned to take full potential market share and is expected to grow further in 2009.

It is the policy of the Company to reward its shareholders through sustainable levels of dividend distribution. However, in order to conserve cash for

From left: Jorgen Madsen (Director), H.E. Sultan Salim Al-Habsi (Director), Abdul Aziz Bin Ali Shanfari (Chairman), Hamed Bin Suleman Al Shereiqi (Director), Tiemen Meester (Director), Eng. Abu Bakr Bin Salim Bin Alawi Al-Dheeb (Vice Chairman).

Table No. 1: **Dividend history of the Company for the last five years.**

	2004	2005	2006	2007	2008
Dividend%	10%	10%	12%	12%	Nil
Cash outlay (RO '000)	1,798	1,798	2,158	2,158	Nil

the purpose of planned expansions it is proposed that the company declares nil dividend for year 2008. It is believed that this cash will assist in enhancing shareholder value in the long run.

During the year Mr. Tommy Bro Molgaard resigned from the membership of the Board of Directors. The company extends its appreciation for the contributions made by Mr. Tommy Bro Molgaard.

Mr. Jorgen Madsen assumed the membership of the Board.

Mr. Martijn van de Linde succeeded Mr. Gary Lemke as Chief Executive Officer of the Company during the year.

Despite the negative global economic outlook, the Port of Salalah should still be expected to grow year on year in 2009. More transshipment volume can be routed to Salalah by the customers resulting in further growth of new volume to the Port. The Management is undertaking further re-structuring of the Company in order to save cost and drive performance.

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 continued support without which it would not have been possible to establish and maintain a world class port.

I also take this opportunity to express our appreciation for the unabated support of our customers, suppliers and the employees for their roles in the Company's successful journey through the last ten years.

On behalf of the Board of Directors,

Abdul Aziz Bin Ali Shanfari
Chairman

February 14, 2009

*Management Discussion and **Analysis***


GUDRUN MÆRSK
MAERSK

Business of the Company

Port of Salalah is a large transshipment hub in the West Central Asia region engaged in leasing, equipping, operating and managing a world-class Container terminal and General Cargo terminal under a thirty-year concession agreement with the Government of Oman. The Company has a management contract with APM Terminals, a global terminal operator with interests in more than 50 terminals spanning 31 countries and 5 continents.

During 2008, the Company handled 3.068 million TEUs and 3.469 million tonnes at its Container terminal and General cargo terminal respectively. The Company had 2,336 employees on its rolls including 1,408 local nationals as at the end of 2008.

Market Review

The high oil price has given local economies a huge boost and triggered major investments in infrastructure projects. These have led to a sustained increase in containerized imports to many countries in the region and a growth of 12% in container cargo in the Middle East. Included in the development have been a number of port developments which will help to address the predicted imbalance and capacity crunch predicted in coming years with growing demand outstripping port supply. 2008 also saw shipping lines struggling with not only high fuel prices but also freight rates that fell by up to 15%. Another regional low point has been over 150 reported pirate attacks along the Gulf of Aden leading to increased naval presence.

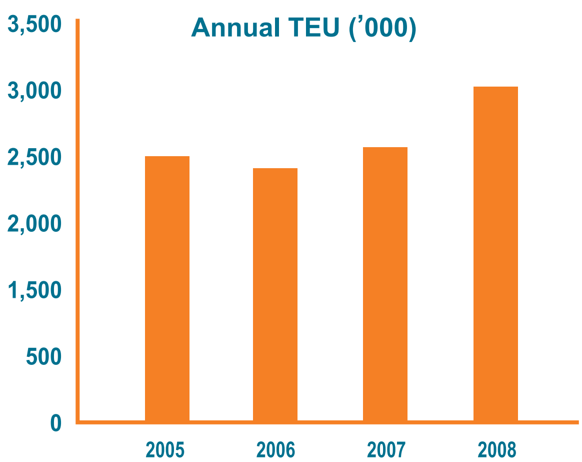
Global trade was severely impacted by a financial crisis that began in September and the resulting credit crunch is still with us as we move into 2009. We are entering a definite global downturn with a global consumer slowdown and an unpredictable period for the global economy that has resulted in the oil bubble finally bursting on weak demand prospects. The management will continuously monitor the impact of economic uncertainty and initiate necessary measures as they unfold.

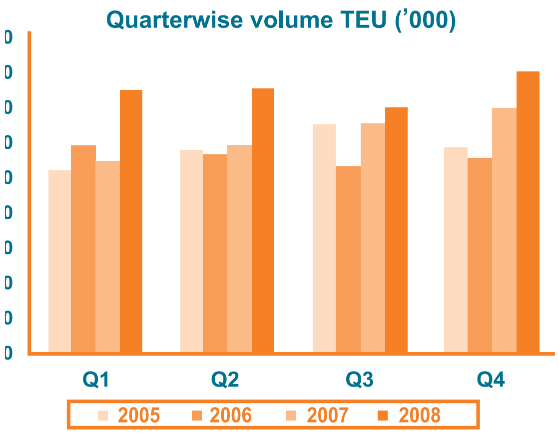
Operations Review

Container Terminal

With the availability of 519 meters of quay wall on Berth 6 received during the year the container terminal has a total quay length of 2,205 meters. Related superstructure is expected to be in place in phases to be completed in mid 2009. With this, annual terminal capacity will reach 5 million TEUs. Container Terminal superstructure now includes 17 Ship-to-shore gantry cranes, 62 Rubber tyred gantry cranes (45 in 2007) and 172 Tractors (120 in 2007). The Company has long-term contracts with three major customers viz. Maersk Line, Mediterranean Shipping Company and American President Line contributing entire throughput of the container terminal. The Company expects their continued support and has drawn out long-term growth plans accordingly.

In the face of severe yard congestion resulting from escalation in throughput, during mid 2008, the Company was faced with drop in productivity levels. The management initiated various measures including improvement of yard handling equipments which has resulted in reversal of the situation by the end of the year.

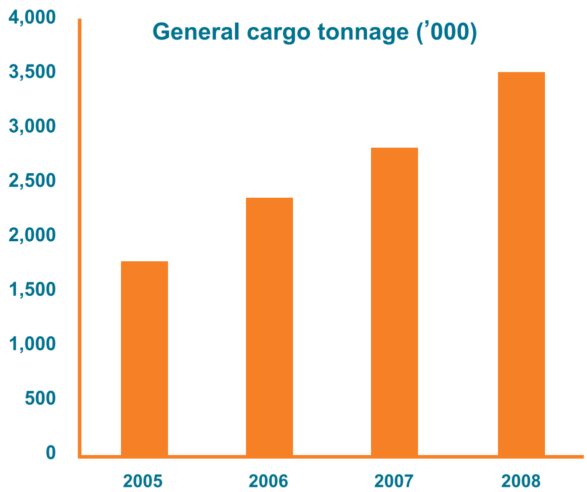




In its endeavour to make the Port of Salalah a safer place to work, the Company initiated various measures which have resulted in substantial reduction in work-related injuries by 37% and related time lost.

General Cargo Terminal

The terminal recorded a throughput of 3.469 million tonnes (25% over 2007). The growth was driven by an increase in limestone exports surpassing cement as the largest commodity and the commencement of activities in the Salalah Free Zone.



In line with the growing popularity of Oman as a tourist destination, the terminal witnessed an increase in the number of cruise vessels during the year - 40 (28 in 2007), a growth of 43%.

Human Resources and Training

The increase in equipment levels resulted in requirement for additional manpower. Coordinated recruitment and training processes were initiated to ensure adequate manning levels. Total headcount of the Company at the end of 2008 stood at 2,336 (end of 2007 at 1,723). Omanisation stood at 60%.

Internal Control Systems and their Adequacy

In order to ensure the protection of the interests of all stakeholders, the management evaluates the adequacy of existing internal control procedures from time to time and initiates corrective measures as necessary. This process is overseen by the Company's internal audit department. Internal audit department reports to the Audit committee comprising members of the Board of Directors.

The business of the Company is dependent on various factors including the trends in global economy. The Company monitors the evolution of factors contributing to its business and initiates appropriate remedial steps on an ongoing basis.

Currency revaluation

Omani Rial remains pegged with the US Dollar and the Company's financials will be affected in the event of any revision in the governmental strategy. The Company will exercise constant vigil and initiate all possible measures to contain this risk if required.

Financial review

Substantial throughput and revenue growth was recorded at both the container and general cargo facilities. Consolidated revenue at RO 41.4 million exceeded previous year by 28%.

Surge in throughput during the middle of the year resulted in severe yard congestion leading to drop in productivity levels. Corrective measures in the form of additional equipment and manpower resulted in reversal of situation. However, the costs of depreciation and financing as well as additional manpower have strained the growth in bottom line.

Table No. 2: Quarterly financial performance

Figures in RO'000

	Q1 08	Q2 08	Q3 08	Q4 08	Yr 2008	Yr 2007
Revenue	9,843	10,123	10,277	11,203	41,446	32,388
Gross Profit	4,727	4,480	3,707	3,901	16,815	14,441
Cash Profit	2,876	2,852	2,558	2,533	10,819	9,544
Net Profit	1,565	1,293	824	846	4,528	4,555

With the reversal in productivity trends, profitability will improve in the coming years. Inflationary pressure and devaluation of US Dollar resulted in increase in cost of spares. This, together with increased equipment levels, resulted in 40% growth in the cost of maintenance. Increase in cost of energy is mainly on account of higher throughput. Other direct operating costs were higher on account of additional tug hired for supporting the increase in activity.

Concession costs are higher on account of part year rentals on Berth 6 and full year impact of rentals on Berth 5. The increase was also contributed by costs on insurance and terminal maintenance Growth in indirect manpower cost was contributed by the creation of structures within the Company to handle the growth of the new project developments and increase in volumes due to widening customer base and capacity build-up.

Financing costs are higher in line with the movement in debts during the year. Consolidated net profit for the year at RO 4.5 million is at previous year levels.

Outlook

Salalah Free Zone is witnessing rapid development with a few facilities coming online during the year. In addition to the general increase in related container activity, opportunities have arisen in other areas for the General cargo facility in the form of limestone exports. The Company is working closely with various stakeholders on these opportunities.

Global economic slowdown has already affected the logistics industry with profitability of shipping lines coming under pressure. However, the Company is confident of achieving its growth ambitions by leveraging its strengths and will initiate all possible measures based on ground realities.

The Company is in the face of sustained development and is confident of emerging stronger from the ongoing global turmoil.

I take this opportunity to express our sincere thanks to the employees of the Company, the customers and the Government of Oman for their unstinted support during 2008 and look forward to their continuance.

Martijn van de Linde
Chief Executive Officer

February 14, 2009

Executive Committee

- **Martijn van de Linde**
  Chief Executive Officer
- **Ahmed Ali Issa Akaak**
  Deputy Chief Executive Officer
- **Madabushi Krishnan**
  Financial Controller
- **Bas Hokke**
  Chief Operating Officer
- **Brian Paul**
  Chief Commercial Officer
- **Ernie Londeree**
  General Manager Projects
- **Ali Issa Shamas**
  General Manager – General Cargo Terminal
- **Ahmed Qatan**
  Sr. Manager – HR
- **Ashwani Jhamb**
  General Manager – Audit & Assurance

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www.ey.com/me
C.R. No. 1/36809/5
P.R. No. MH/4

Report of Factual Findings on the corporate governance reporting of Salalah Port Services Company SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance

TO THE SHAREHOLDERS OF SALALAH PORT SERVICES COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of Salalah Port Services Company SAOG (the company) and its application of corporate governance practices in accordance with the CMA code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the company's compliance with the code as issued by the CMA.

We report our findings below:

We found that the company's corporate governance report fairly reflects the company's application of the provisions of the code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Salalah Port Services Company SAOG to be included in its annual report for the year ended 31 December 2008 and does not extend to any financial statements of Salalah Port Services Company SAOG, taken as a whole.

Ernst & Young

14 February 2009
Muscat

Corporate Governance Report


Port of Salalah

Corporate governance pertains to systems, by which companies are directed and controlled, keeping in mind long-term interest of the stakeholders. It refers to a blend of law, regulation and voluntary practices, which enable a company to attract financial and human capital, perform efficiently and thereby perpetuate economic value for its shareholders, with due respect to the interests of other stakeholders and the society as a whole.

It aims to align the interests of a company with that of its shareholders and other stakeholders. The incentive for companies, and those who own and manage them, to adopt global governance standards, is that these standards will help them to achieve a long-term partnership with its stakeholders and achieve their corporate objectives efficiently. The principal characteristics of corporate governance are:

• Transparency • Independence • Accountability
• Responsibility • Fairness • Social Responsibility

Corporate Governance at Salalah Port Services Co (SAOG)

The Company's philosophy of Corporate Governance is aimed at maximizing shareholder value and protecting the interest of other stakeholders. The Company aims to achieve this through adequate and appropriate disclosure of material facts and achievements, transparency, accountability and equity in all facets of its operations. The Company also believes that it is essential to have clear policies assuring that all involved in the process of managing the Company, from the Board of Directors to down, are able to act in the best interest of shareholders. The Company is committed to comply with the Capital Market Authority guidelines on corporate governance and disclosure practices.

Board of Directors

The Board of Directors comprises six members and is responsible for the Management of the Company's business. The Board's role, functions and responsibilities are clearly defined. In addition to its primary role of monitoring corporate performance, the functions of the Board also include:

- Approving corporate vision, mission and objectives.
- Establishing and approving the formulation of strategic business plans
- Reviewing and approving financial plans and budgets
- Monitoring corporate performance
- Compliance of laws and regulations
- Appointment of Chief Executive Officer

Composition of the Board of Directors as on December 31, 2008 is shown in Table No. 3.

During the financial year 2008 four Board meetings were held on the following dates:

- February 13, 2008
- April 23, 2008
- July 29, 2008
- October 28, 2008

Table No. 3: **Composition of the Board of Directors as on December 31, 2008.**

Name	Category
Mr. Abdul Aziz Bin Ali Shanfari	Non-executive, Independent & Elected
Eng. Abu Bakr Salim Alawi Al Dheeb	Non-executive, Independent & Nominated
H.E. Sultan Salim Al-Habsi	Non-executive, Independent & Nominated
Mr. Tiemen Meester	Non-executive, Independent & Elected
Mr. Jorgen Madsen	Non-executive, Independent & Nominated
Mr. Hamed Suleman Rashid Al Shereiqi	Non-executive, Independent & Elected

Table No. 4: Attendance of each Director at the Board Meeting, last Annual General Meeting, sitting fees paid and number of other Directorship of each Director in various Omani companies.

Name of Director	Attendance Particulars		Sitting fees (RO)	No. of Directorship in other entities
	Board meeting	Last AGM		
Mr. Abdul Aziz Bin Ali Shanfari	4	Yes	3,200	0
H.E. Sultan Salim Al-Habsi	4	Yes	3,200	0
Mr. Tiemen Meester	4	No	3,200	0
Mr Tommy Bro Molgaard	1	No	800	0
Mr. Jorgen Madsen	3	No	2,400	0
Eng. Abu Bakr Salim Alawi Al Dheeb	4	Yes	3,200	0
Mr. Hamed Suleman Rashid Al Shereiqi	4	Yes	3,200	0

***Note:** Mr. Abdul Aziz Bin Ali Shanfari is the Chairman of the Board of Directors of the Company. None of the Directors hold the position of Chairman in any other Omani joint stock company.*

During the year Mr. Tommy Bro Molgaard resigned from the membership of the Board of Directors. The company extends its appreciation for the contributions made by Mr. Tommy Bro Molgaard.

Table No. 5: Number of Audit Committee meetings attended by each member.

Member	No. of meetings	Sitting fees (RO)
H.E. Sultan Salim Al-Habsi	4	2,000
Mr Hamed Suleman Rashid Al Shereiqi	4	2,000
Mr Tommy Bro Molgaard	1	500
Mr Jorgen Madsen	2	1,000

The Chief Financial Officer acts as the Secretary to the Board.

Attendance of each Director at the Board Meeting, last Annual General Meeting, sitting fees paid and number of other Directorship of each Director in various Omani companies are as shown in Table No. 4.

In accordance with the terms and conditions of the Management Agreement A. P. Moller Terminals & Co. LLC is the Manager of the Company with responsibility of operation and day-to-day management of the Company.

Audit and other committees

a) Audit Committee terms of reference:
Terms of reference of the Audit Committee are as per the guidelines set out by Capital Market Authority and include overseeing of financial reporting process, reviewing with the management the financial statement and adequacy of internal control system, reviewing the adequacy of internal audit function and discussion with Internal Auditor on significant findings.

The members of the Auditing Committee are governed by the provisions of liability stipulated in Article 109 of the Commercial Companies Law, without prejudice to their liabilities resulting from their membership of the Board of Directors.

Following directors are the members of the Audit Committee:

- H.E. Sultan Salim Al-Habsi – Chairman
- Mr. Hamed Suleman Rashid Al Shereiqi
- Mr. Jorgen Madsen

The members of the Audit Committee are independent and have knowledge of finance, accounts, company law and the shipping industry. The quorum for the audit committee is a minimum of two members to be present. The Internal Auditor acts as the Secretary to the Audit Committee.

During the year 2008, four Audit Committee meetings were held, number of meetings attended by each member is shown in Table No. 5.

The Audit Committee approves the quarterly un-audited and annual audited financial statements. The Audit Committee, on behalf of the Board has regularly reviewed the internal control environment of the Company. They meet the internal auditor on a regular basis to review the internal audit reports, recommendations and management comments thereupon. Mr Ashwani Jhamb has been working as General Manager, Audit and Assurances for the company. Audit Committee members have also met the external auditors to review audit findings and management letter. The Audit Committee has met the internal and external auditors in absence of management as required under the code of Corporate Governance.

The Audit Committee also briefs the Board about the effectiveness of internal controls in the Company. The Audit Committee and the Board are pleased to inform the shareholders that an adequate and effective internal control system is in place and that there are no significant concerns.

b) Tariff Committee terms of reference:

- To provide guidelines to create a tariff to SPS management;
- To benchmark the proposed tariff structure against the provisions in the Concession Agreement and to address any difference with the Government; and
- To test the proposed tariff structure against the financial plan.

Following Directors are the members of the Tariff Committee:

- Mr. Tiemen Meester – Chairman
- Eng. Abu Bakr Salim Alawi Al Dheeb
- H.E. Sultan Salim Al-Habsi

No tariff committee meetings were held during the year.

Table No. 6: General shareholders information

EGM/AGM: Date	**March 25, 2009**
Time	10:00 AM
Venue	Salalah Hilton, Salalah
Financial Year	2008
Date of Book Closure	**March 25, 2009**
Dividend payment date	The dividend, if approved by the shareholders, will be paid within the statutory time limit.
Listing on Stock Exchange	Muscat Securities Market
Registrar and share transfer agents	Muscat Depository Securities Registration Company
Market price data	See Table No. 7
Distribution of shareholders	See Table No. 8
Ten major shareholders	See Table No. 9
Port location	Port Salalah, about 20 km west of Salalah, Dhofar, Sultanate of Oman.
Address of correspondence	Salalah Port Services Co SAOG Al Jawhara Building, Shatti Al Qurum, P.O. Box 105, Muscat P.C. 118, Sultanate of Oman

Table No. 7: Market price data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year 2008
Share price (RO)													
High	8.300	8.500	8.500	8.000	9.617	10.000	9.000	9.700	8.900	9.000	8.910	8.700	10.000
Low	7.990	8.100	7.900	7.500	7.200	8.900	9.000	8.109	8.900	8.100	8.700	8.700	7.200
Opening	8.300	8.100	7.900	7.950	9.062	8.949	9.000	8.109	8.900	8.100	8.700	8.700	8.300
Closing	8.300	8.500	8.000	7.950	9.062	8.949	8.900	9.010	8.900	8.100	8.910	8.910	8.910
Volume	251,513	25,183	213,089	16,686	246,224	36,514	435	1,893	32,289	721,800	1,046	446	1,547,118
Trade Value (RO)	30,338	213,989	1,751,093	133,145	2,047,198	331,091	3,915	17,031	287,372	6,494,580	9,226	3,880	11,322,858
Services Sector Index													
Opening	3,533	3,594	4,027	4,011	4,553	4,732	4,990	4,891	4,276	3,984	2,823	2,915	3,533
Closing	3,594	4,027	4,011	4,553	4,732	4,990	4,891	4,276	3,984	2,823	2,915	2,369	2,369

Process for nomination of Directors

In accordance with the amendment in Article 97 to the Commercial Companies Law, all Directors must be voted on to the Board using the cumulative voting process. Notwithstanding the above provision, the Government of the Sultanate of Oman shall have the power to nominate one member of the Board of Directors, who shall be a representative of the Government of the Sultanate of Oman, irrespective of whether the Government continues to be a shareholder of the Company or not.

Table No. 8: **Distribution of shareholding as on December 31, 2008**

Number of equity shares held	No. of shares held	% of total shares	No. of shareholders	% of total shareholders
1 to 100	17,384	0.10%	1,162	86.20%
101 to 500	20,441	0.11%	88	6.53%
501 to 1,000	22,822	0.13%	31	2.30%
1,001 to 10,000	157,423	0.88%	41	3.04%
10,001 to 100,000	279,730	1.56%	13	0.96%
100,001 and above	17,485,940	97.23%	13	0.96%
Total	**17,983,740**	**100.00%**	**1,348**	**100.00%**

Communication with shareholders and investors

- The quarterly results were published in local newspaper both in Arabic as well in English.
- The Company also has a website by the name of www.salalahport.com and the full quarterly results have been posted on it.
- The Company has made no presentations to the institutional investors or to the analysts during the year.
- Management Discussion & Analysis Report forms part of the Annual Report

Remuneration

Details of the remuneration to Directors

Remuneration paid to the directors besides board sitting fees during year 2008 is RO 30,000 (Year 2007 – RO 30,000) as shown in Table No. 11.

Details of the remuneration paid to top 5 officers

During the year 2008 gross salary and compensation paid to top 5 executives of the Company including variable components is RO 394,810 (Year 2007 – RO 412,490).

Table No. 9: **Top 10 Shareholders as on December 31, 2008**

No.	Name	No. of Shares	%age
1	A P Moller Finance SA	5,418,000	30.13%
2	Government of Oman (Ministry of Finance)	3,612,000	20.08%
3	HSBC A/C HSBC BK PLC A/C IB MAIN ACCOUNT	2,425,803	13.49%
4	HSBC A/C MINISTRY OF DEFENCE PENSION FUND	1,798,374	10.00%
5	The Public Authority for Social Insurance	1,158,433	6.44%
6	Dhofar International Development & Investment Co SAOG	1,078,374	6.00%
7	HSBC A/C SSB A/C QUANTUM EMEA FUND LTD	653,229	3.63%
8	The Civil Service Employees Pension Fund	526,690	2.93%
9	Internal Security Pension Fund	184,800	1.03%
10	Sultan Special Force Pension Fund	180,600	1.00%
Total		**17,036,303**	**94.73%**

Table No. 10: General Body Meeting

The details of AGMs and EGMs held by the Company during the previous years are as follows:

Financial Year	Meeting	Location	Date	Time
1998	AGM	Holiday Inn, Salalah	April 28, 1999	5:00 PM
1999	AGM	Hilton, Salalah	April 26, 2000	5:00 PM
2000	AGM	Hilton, Salalah	April 24, 2001	5:00 PM
2001	EGM	Hilton, Salalah	April 24, 2001	3:00 PM
2001	AGM	Hilton, Salalah	April 24, 2002	5:00 PM
2002	AGM	Hilton, Salalah	April 30, 2003	10:00 AM
2003	EGM	Hilton, Salalah	April 28, 2004	10:00 AM
2003	AGM	Hilton, Salalah	April 28, 2004	11:00 AM
2004	AGM	Hilton, Salalah	April 20, 2005	10.00 AM
2005	AGM	Hilton, Salalah	March 29, 2006	10.00 AM
2006	AGM	Hilton, Salalah	March 28, 2007	10.00 AM
2007	EGM	Hilton, Salalah	March 26, 2008	10.00 AM
2007	AGM	Hilton, Salalah	March 26, 2008	10.05 AM

The shareholders passed all the resolutions set out in the respective notices.

Table No. 11: Remuneration paid to the Directors

Name	Category	Remuneration fees for 2008 (RO)
Mr. Abdul Aziz Bin Ali Shanfari	Non-executive, Independent & Elected	5,000
Eng. Abu Bakr Salim Alawi Al Dheeb	Non-executive, Independent & Nominated	5,000
H.E. Sultan Salim Al-Habsi	Non-executive, Independent & Nominated	5,000
Mr. Tiemen Meester	Non-executive, Independent & Elected	5,000
Mr. Jorgen Madsen	Non-executive, Independent & Nominated	5,000
Mr. Hamad Suleman Rashid Al Shereiqi	Non-executive, Independent & Elected	5,000
Total		**30,000**

Professional profile of statutory auditor

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 130,000 people are united by our shared values and an unwavering commitment to quality.

We make a difference by helping our people, our clients and our wider communities achieve potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited,

Table No. 12: **Details of non-compliance by the Company, penalties, strictures imposed on the Company by Muscat Securities Market or Capital Market Authority or any statutory authority, on any matter related to Capital Markets, during the last four years.**

Year	Particulars
2005	• Duration between second and third board meeting exceeded by eighteen days beyond the four months time limit • Submission of the quarterly financial results for the period ended 30th September 2005 to CMA was delayed by one day beyond the 30-day time limit
2006	• Duration between second and third board meeting exceeded by 39 days beyond the four months time limit • Delay in uploading of un-audited quarterly financials on the MSM website for first and second quarter, each by one day
2007	• Duration between second and third board meeting exceeded by 20 days beyond the four months time limit.
2008	• None

each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

The Middle East practice of Ernst & Young is an independent professional services firm, which has operated in the region since 1923 and is a full member of Ernst & Young Global. For over 80 years, the firm has evolved itself to meet the legal and commercial developments in the region. Ernst & Young Middle East currently has over 3,500 staff working from 18 offices in 13 Arab regions.

The audit fee for 2008 is as follows:

Salalah Port Services Co. SAOG	:	RO 12,500
Internal Audit Questionnaire	:	RO 2,500
Port of Salalah Development Co. LLC	:	RO 1,500

On behalf of the Board of Directors, it is confirmed that:

- The Financial statements have been prepared in accordance with applicable standards and rules.
- The Board reviews the efficiency and adequacy of internal control systems of the Company and the financial statements comply with such internal rules and regulations
- There are no material events that affect continuation of the Company and its ability to continue its operations during the next financial year.

Abdul Aziz Bin Ali Shanfari
Chairman

February 14, 2009

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P.R. No. MH/4

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALALAH PORT SERVICES COMPANY SAOG AND ITS SUBSIDIARY

Report on the Financial Statements

We have audited the accompanying financial statements of Salalah Port Services Company SAOG ('the company'), and its subsidiary ('the group') which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the company as at 31 December 2007 were audited by another auditor, whose report dated 13 February 2008, expressed an unqualified audit opinion.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority effective 1 October 2007. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the consolidated financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.

Ernst & Young

14 February 2009
Muscat

Philip D Stanton
Partner

Consolidated Income Statement

for the year ended 31 December 2008

2007 US $ '000	**2008 US $ '000**		Notes	**2008 RO'000**	2007 RO'000
84,211	**107,759**	Revenue	*28*	**41,446**	32,388
(46,660)	**(64,041)**	Direct operating costs	*5*	**(24,631)**	(17,947)
(10,813)	**(12,358)**	Other operating expenses	*6*	**(4,753)**	(4,158)
(9,950)	**(14,441)**	Administration and general expenses	*7*	**(5,555)**	(3,826)
480	**546**	Other income	*8*	**210**	185
17,268	**17,465**	**Profit from operations**		**6,717**	6,642
(3,164)	**(3,998)**	Net finance costs	*9*	**(1,538)**	(1,218)
14,104	**13,467**	**Profit for the year before tax**		**5,179**	5,424
(2,260)	**(1,692)**	Income tax	*25*	**(651)**	(869)
11,844	**11,775**	**Profit for the year**		**4,528**	4,555
0.66	**0.66**	**Basic earnings per share (US $ / RO)**	*19*	**0.252**	0.253
		Profit attributable to :			
11,844	**11,771**	Equity holders of the parent		**4,526**	4,555
-	**4**	Minority interests		**2**	-

The notes on pages 28 to 54 form part of these consolidated financial statements.
The report of the Auditors is set forth on page 23.

Consolidated Balance Sheet

as at 31 December 2008

2007 US $ '000	**2008 US $ '000**		Notes	**2008 RO'000**	2007 RO'000
		ASSETS			
		Non Current Assets			
137,792	**259,557**	Property and equipment	*11*	**99,828**	52,997
782	**744**	Intangible assets	*12*	**286**	300
442	**416**	Available for sale investments	*13*	**160**	170
139,016	**260,717**			**100,274**	53,467
		Current Assets			
3,838	**5,844**	Inventories	*14*	**2,248**	1,476
10,964	**5,496**	Trade and other receivables	*15*	**2,113**	4,217
13,033	**24,396**	Cash and cash equivalents	*16*	**9,383**	5,013
16,138	**9,997**	Term deposits	*17*	**3,845**	6,207
43,973	**45,733**			**17,589**	16,913
182,989	**306,450**	**TOTAL ASSETS**		**117,863**	70,380
		EQUITY			
46,758	**46,758**	Share capital	*18*	**17,984**	17,984
7,666	**7,666**	Share premium	*18*	**2,949**	2,949
6,922	**8,098**	Legal reserve	*18*	**3,114**	2,662
(850)	**(8,442)**	Hedging deficit	*26*	**(3,247)**	(327)
182	**156**	Revaluation surplus	*13*	**60**	70
29,042	**34,026**	Retained earnings		**13,086**	11,170
89,720	**88,262**	Equity attributable to equity holders of the parent company		**33,946**	34,508
78	**82**	Minority interest	*18*	**32**	30
89,798	**88,344**	**TOTAL EQUITY**		**33,978**	34,538
		LIABILITIES			
		Non Current Liabilities			
50,556	**150,330**	Loans and borrowings	*22*	**57,819**	19,444
8,141	**9,815**	Deferred tax	*25*	**3,775**	3,131
1,680	**2,183**	Employees' end of service benefits	*23*	**839**	646
663	**7,043**	Derivative financial instruments	*26*	**2,709**	255
61,040	**169,371**			**65,142**	23,476
		Current Liabilities			
21,838	**30,550**	Trade and other payables	*24*	**11,749**	8,399
10,126	**16,786**	Loans and borrowings	*22*	**6,456**	3,895
187	**1,399**	Derivative financial instruments	*26*	**538**	72
32,151	**48,735**			**18,743**	12,366
93,191	**218,106**	**TOTAL LIABILITIES**		**83,885**	35,842
182,989	**306,450**	**TOTAL EQUITY AND LIABILITIES**		**117,863**	70,380
4.99	**4.91**	**Net assets per share (US $ / RO)**	*21*	**1.888**	1.919

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 14 February 2009 and were signed on its behalf by:

Chairman

Chief Executive Officer

Financial Controller

The report of the Auditors is set forth on page 23.

Consolidated statement of changes in equity

for the year ended 31 December 2008

	Attributable to equity shareholders of the parent							
	Share capital	Share premium	Legal reserve	Hedging surplus / (deficit)	Revaluation surplus	Retained earnings	Minority Interest	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
1 January 2007	17,984	2,949	2,206	450	-	9,229	-	32,818
Dividend paid	-	-	-	-	-	(2,158)	-	(2,158)
Net profit for the year	-	-	-	-	-	4,555	-	4,555
Fair value adjustment	-	-	-	(777)	70	-	-	(707)
Transfer	-	-	456	-	-	(456)	30	30
31 December 2007	17,984	2,949	2,662	(327)	70	11,170	30	34,538
Dividend paid	-	-	-	-	-	(2,158)	-	(2,158)
Net profit for the year	-	-	-	-	-	4,526	2	4,528
Fair value adjustment	-	-	-	(2,920)	(10)	-	-	(2,930)
Transfer /Acquisition	-	-	452	-	-	(452)	-	-
31 December 2008	**17,984**	**2,949**	**3,114**	**(3,247)**	**60**	**13,086**	**32**	**33,978**

	Share capital	Share premium	Legal reserve	Hedging surplus / (deficit)	Revaluation surplus	Retained earnings	Minority Interest	Total
	US $'000	US $'000	US $'000	US $ '000	US $ '000	US $ '000	US $ '000	US $'000
1 January 2007	46,758	7,666	5,737	1,171	-	23,994	-	85,326
Dividend paid	-	-	-	-	-	(5,611)	-	(5,611)
Net profit for the year	-	-	-	-	-	11,844	-	11,844
Fair value adjustment	-	-	-	(2,021)	182	-	-	(1,839)
Transfer	-	-	1,185	-	-	(1,185)	78	78
31 December 2007	46,758	7,666	6,922	(850)	182	29,042	78	89,798
Dividend paid	-	-	-	-	-	(5,611)	-	(5,611)
Net profit for the year	-	-	-	-	-	11,771	4	11,775
Fair value adjustment	-	-	-	(7,592)	(26)	-	-	(7,618)
Transfer /Acquisition	-	-	1,176	-	-	(1,176)	-	-
31 December 2008	**46,758**	**7,666**	**8,098**	**(8,442)**	**156**	**34,026**	**82**	**88,344**

The notes on pages 28 to 54 form part of these consolidated financial statements.

The report of the Auditors is set forth on page 23.

Consolidated cash flow statement

for the year ended 31 December 2008

2007 US $ '000	2008 US $ '000		2008 RO'000	2007 RO'000
		Operating activities		
14,104	**13,467**	Profit for the year before tax	**5,179**	5,424
		Adjustments for:		
10,296	**13,870**	Depreciation and amortisation	**5,335**	3,961
415	**794**	Accrual for employees' end of service benefits	**305**	159
(95)	**(3)**	Gain on sale of equipment	**(1)**	(37)
(807)	**(650)**	Interest income	**(250)**	(310)
3,938	**4,582**	Interest expense	**1,762**	1,515
27,851	**32,060**	Operating profit before working capital changes	**12,330**	10,712
419	**(2,006)**	Change in inventories	**(772)**	162
(1,107)	**5,468**	Change in receivables	**2,104**	(425)
8,180	**8,694**	Change in payables	**3,343**	3,145
(152)	**(291)**	Employees' end of service benefits paid	**(112)**	(58)
35,191	**43,925**	**Net cash from operating activities**	**16,893**	13,536
		Investing activities		
(17,248)	**(135,597)**	Acquisition of equipment	**(52,152)**	(6,633)
193	**3**	Proceeds from sale of equipment	**1**	74
(2,016)	**9,140**	(Increase)/decrease in bank term deposits	**3,515**	(775)
516	**(2,999)**	(Increase)/decrease in other term deposits	**(1,153)**	198
807	**650**	Interest received	**250**	310
(17,748)	**(128,803)**	**Net cash used in investing activities**	**(49,539)**	(6,826)
		Financing activities		
-	**117,257**	Proceeds from loans and borrowings	**45,099**	-
(9,201)	**(10,823)**	Repayment of loans and borrowings	**(4,163)**	(3,540)
(5,611)	**(5,611)**	Dividend paid	**(2,158)**	(2,158)
(3,938)	**(4,582)**	Interest paid	**(1,762)**	(1,515)
78	**-**	Share capital introduced by minority interests	**-**	30
(18,672)	**96,241**	**Net cash used in financing activities**	**37,016**	(7,183)
(1,229)	**11,363**	Net increase/(decrease) in cash and cash equivalents	**4,370**	(473)
14,262	**13,033**	**Cash and cash equivalents at 1 January**	**5,013**	5,486
13,033	**24,396**	**Cash and cash equivalents at 31 December (note 16)**	**9,383**	5,013

The notes on pages 28 to 54 form part of these consolidated financial statements.

The report of the Auditors is set forth on page 23.

Notes
(forming part of the financial statements)

1 Legal status and principal activities

Salalah Port Services Company SAOG ("the Company") is registered as a joint stock company in the Sultanate of Oman under the Commercial Companies Law of Oman. The Consolidated financial statement of the Company as at and for the year ended 31 December 2008 comprises the financial statements of the Company and its subsidiary - Port of Salalah Development Company LLC ("POSDC") (together referred to as the group). The Company primarily engaged in leasing, equipping, operating and managing Container Terminal and General Cargo Terminal facilities in Salalah, Sultanate of Oman. POSDC is engaged in property-related activities within the Port of Salalah premises.

2 Basis of Preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

(b) Basis of measurement and Presentation currency

These consolidated financial statements are presented in Rials Omani ("RO") and United States Dollars (''US$'') rounded off to the nearest thousands. The consolidated financial statements have been prepared under the historical cost basis modified for derivative financial instruments and investments available for sale, which are stated at fair value. Exchange rate considered for conversion is RO 1 = USD 2.6.

The accounting polices adopted are consistent with those of previous year except that during the year IFRIC 12 - Service Concession Arrangements becomes mandatory for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 has no effect on the Company's existing concession agreements and consequently no effect on the financial position of the Group.

(c) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in note 32.

3 Significant agreements

The Company has entered into the following significant agreements:

(i) Concession agreement with the Government of the Sultanate of Oman to lease, equip, operate and manage Salalah Port Container Terminal facilities ("Container Terminal Facilities Agreement

Notes
(forming part of the financial statements)

3 Significant agreements (continued)

and Extension Agreement") for a period of thirty years commencing from 29 November 1998 ("Concession Period"). In consideration for granting the concessions, the Company pays royalty fee to the Government of Sultanate of Oman and is calculated as follows:

- a fixed royalty fee of USD 255,814 per annum, increasing at the rate of 3% per annum; and
- a variable royalty fee calculated in accordance with the terms set out in the Container Terminal Facilities Agreement; and
- an additional fixed royalty fee of USD 750,000 per annum is payable for Berth 5 from 2007 onwards and increasing at the rate of 3% per annum: and
- an additional fixed royalty fee of USD 750,000 per annum is payable for Berth 6 from 2008 onwards and increasing at the rate of 3% per annum

(ii) Management agreement for Container Terminal with AP Moller Terminals Co. LLC with the responsibility for day-to-day management of the Company and operations of the port on behalf of the company. This agreement is effective for the Concession Period. In consideration of the services provided by the manager the Company pays a fee, which varies dependant on the operating revenue of the Container Terminal.

(iii) Concession agreement with the Government of the Sultanate of Oman to equip, operate, market and manage Salalah Port Conventional Terminal facilities ("General Cargo Terminal Facilities Agreement"). The agreement was executed on 11 September 2000, with retrospective effect from 1 October 1998. The agreement is effective for a period co-terminus with the Container Terminal Facilities Agreement. In consideration for granting the concessions, the Company pays royalty fee to the Government of Sultanate of Oman as follows:

- a fixed royalty fee of RO 49,900 per annum, payable from 2005 onwards and increasing at the rate of 3% per annum; and
- a variable royalty fee calculated in accordance with the terms set out in the General Cargo Terminal Facilities Agreement.

(iv) Management agreement for General Cargo Terminal with AP Moller Terminals Co. LLC with the responsibility for day-to-day management of the Company and operations of the port excluding Container Terminal facilities on behalf of the Company. The agreement is effective for the Concession Period. In consideration of the services provided by the manager the Company pays a fee, which varies dependant on the volumes handled by the General Cargo Terminal.

4 Significant accounting policies

The accounting policies set out below have been applied consistently by the Group and are consistent with those used in the previous year .

(a) Basis of consolidation

The consolidated financial statements comprise those of Salalah Port Services Company SAOG and its subsidiary as at 31 December each year. The financial statements of the subsidiary are prepared for the same reporting period as the parent company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

4 Significant accounting policies (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

All intercompany balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

(b) Revenue

Revenue comprises income earned from services rendered in connection with the facilities provided at Container and General Cargo Terminals, and is recognised when earned. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

(c) Net finance costs

Net finance costs comprises interest payable on borrowings and interest receivable on bank deposits.

Interest income is recognised in the income statement as it accrues. Interest expense is recognised in the income statement as incurred.

(d) Employee benefits

Contributions to defined contribution retirement plan for Omani employees, in accordance with Oman Social Insurance Scheme, are recognised as expense in the income statement as incurred.

Provision for non-Omani employee terminal contributions, which is an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws and calculated on the basis of the liability that would arise if the employment of all employees were terminated at the balance sheet date.

(e) Foreign currencies

Transactions in foreign currencies are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rials Omani at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction.

(f) Derivative financial instruments and hedging

The Company enters into derivative instruments mainly interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The fair values of derivative instruments are included in other receivables in case of favourable contracts and other payables in case of unfavourable contracts.

4 Significant accounting policies (continued)

The fair value of interest rate swap contracts is calculated based on discounted cash flows using current forward interest rate for items with the same maturity.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

(g) Intangible asset

Expenditure incurred on initial studies for development of Salalah Port have been capitalised by the Company. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses [refer accounting policy (m)]. Amortisation of development expenditure is charged to income statement on a straight line basis over the Concession Period.

(h) Property and equipment

(i) *Recognition and measurement*

Items of property and equipment are stated at historical cost less accumulated depreciation and impairment losses [refer accounting policy (m)]. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(ii) *Depreciation*

Depreciation is charged to income statement. Capital work-in-progress is not depreciated. Depreciation on property and equipment is calculated so as to write off their cost by equal instalments as follows.

	Years
Leasehold improvements	3 – 5
Quay gantry cranes	6 – 25
Mobile Harbour Cranes	15
Rubber tyre gantry cranes	15
Tractors and trailors	10 – 15
Forklifts and reach stackers	3 – 5
Marine equipment	25 – 30
Motor vehicles	3 – 5
Computer equipment and software	1 – 5
Furniture, fixtures and equipment	3 – 5
Mooring Systems	7

4 Significant accounting policies (continued)

(i) Investments

The Company's investments in equity securities are classified as available for sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses [refer accounting policy (m)] and losses on available for sale monetary assets, are recognised directly in equity. The fair value of investments available for sale is their quoted bid price at the balance sheet date. Available for sale investments are recognised / de-recognised by the company on the date it commits to purchase/sell the investments. When an investment is derecognised the cumulative gain or loss in equity is transferred to profit or loss.

(j) Receivables

Receivables are stated at their cost less impairment losses [accounting policy (m)].

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, balances with banks and short-term deposits with an original maturity of three months or less.

(m) Impairment

The carrying amounts of the Group's assets, other than inventories [accounting policy (k)] and deferred tax assets [accounting policy (s)], are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original interest rate inherent in the asset. Receivables with a short duration are not discounted.

(n) Dividends

Dividends are recommended by the Board of Directors and subject to approval by shareholders at the Annual general meeting. Dividends are recognised as a liability in the period in which they are declared.

(o) Determination of Directors remuneration

The Annual General Meeting determines the total remuneration of the Chairman, Deputy Chairman and other members of the Board of Directors in respect of Board Meetings, positions held and sub-committee duties, not exceeding three percent (5%) of the net annual profits after deduction of the legal reserve, the special reserve (if any), and payment of dividends of not less than five percent (5%) to all shareholders. Directors' remuneration is recognized in the income statement.

Notes
(forming part of the financial statements)

4 Significant accounting policies (continued)

(p) *Payables and provisions*

Payables are stated at cost and provision is recognised in the balance sheet when the Group has a present legal or constructive obligation that can be measured reliably as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) *Interest bearing borrowings*

Interest bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowings on an effective interest rate basis.

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying assets is capitalised as part of the costs of that asset.

(r) *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease, increasing at the rate of 3% per annum.

(s) *Income tax*

Income tax on the results for the year comprises deferred tax and current tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is calculated using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) *Earnings per share*

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(u) *New standards and interpretations that are not effective*

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

Notes
(forming part of the financial statements)

4 Significant accounting policies (continued)

- Revised IAS 1 "Presentation of Financial Statements" which will be effective for the year ending 31 December 2009. The application of this standard will result in amendments to the presentation of the financial statements."

- IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Company discloses information about its operating segments.

5 Direct operating costs

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
24,856	**33,870**	Staff costs	**13,027**	9,560
9,943	**13,451**	Depreciation	**5,174**	3,825
4,324	**6,080**	Repair and maintenance	**2,338**	1,663
5,052	**6,438**	Power and fuel	**2,476**	1,943
2,485	**4,202**	Other expenses	**1,616**	956
46,660	**64,041**		**24,631**	17,947

6 Other operating expenses

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
4,501	**5,427**	Ground rent and royalty	**2,087**	1,731
3,287	**3,291**	Management fees	**1,266**	1,264
229	**239**	Depreciation	**92**	88
2,796	**3,401**	Others	**1,308**	1,075
10,813	**12,358**		**4,753**	4,158

7 Administration and general expenses

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
6,129	**8,427**	Staff costs	**3,241**	2,357
87	**142**	Depreciation	**55**	34
435	**534**	Sales and marketing	**206**	167
635	**906**	Systems and communications	**348**	244
694	**1,665**	Legal and professional fees	**641**	267
1970	**2,767**	Others	**1,064**	757
9,950	**14,441**		**5,555**	3,826

Notes
(forming part of the financial statements)

8 Other income

2007 US $ '000	2008 US $ '000		2008 RO'000	2007 RO'000
480	**546**	Miscellaneous	**210**	185
480	**546**		**210**	185

9 Net finance costs

2007 US $ '000	2008 US $ '000		2008 RO'000	2007 RO'000
3,938	**4,582**	Term loan interest	**1,762**	1,515
33	**66**	Other finance charges	**26**	13
3,971	**4,648**	Total finance cost	**1,788**	1,528
(807)	**(650)**	Interest income	**(250)**	(310)
3,164	**3,998**		**1,538**	1,218

10 Salaries and related costs

2007 US $ '000	2008 US $ '000		2008 RO'000	2007 RO'000
24,752	**33,216**	Wages and salaries	**12,775**	9,520
4,872	**7,099**	Other benefits	**2,731**	1,874
415	**794**	Increase in liability for un-funded defined benefit retirement plan	**305**	159
946	**1,188**	Contributions to defined contribution retirement plan	**457**	364
30,985	**42,297**		**16,268**	11,917

11 Property and equipment

Details of property and equipment are set out in pages 49 and 50.

Buildings are situated on land leased up to the year 2028, from the Ministry of Transport and Communications. Annual lease rental is RO 286,140 and increases based on contractual terms agreed with the Government.

The depreciation charge has been allocated in the income statement as follows:

2007 US $ '000	2008 US $ '000		2008 RO'000	2007 RO'000
9,943	**13,451**	Direct operating costs	**5,174**	3,825
229	**239**	Other operating expenses	**92**	88
87	**142**	Administration expenses	**55**	34
10,259	**13,832**		**5,321**	3,947

Notes
(forming part of the financial statements)

12 Intangible assets

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
1,105	**1,105**	1 January and 31 December	**425**	425
		Cumulative amortisation		
(286)	**(323)**	1 January	**(125)**	(111)
(37)	**(38)**	Additions	**(14)**	(14)
(323)	**(361)**	31 December	**(139)**	(125)
		Carrying amount		
819	**782**	1 January	**300**	314
(37)	**(38)**	Additions	**(14)**	(14)
782	**744**	31 December	**286**	300

13 Available for sale investments

The Company has invested RO 100,000 for the purchase of 100,000 shares of Dhofar University SAOG. The shares though quoted are not available for sale due to lock-in restrictions.

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
442	**416**	Ordinary Shares - Quoted	**160**	170

14 Inventories

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
5,159	**7,474**	Spares and consumables	**2,875**	1,984
(1,321)	**(1,630)**	Less: Provision for slow moving inventories	**(627)**	(508)
3,838	**5,844**		**2,248**	1,476

15 Trade and other receivables

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
2,710	**-**	Receivables from related parties	**-**	1,043
3,603	**2.663**	Trade receivables	**1,024**	1,385
(65)	**(62)**	Less : Provision for impairment	**(24)**	(25)
6,248	**2,601**		**1,000**	2,403
3,610	**1,632**	Receivables from the Government of Sultanate of Oman	**628**	1,389
435	**515**	Prepaid expenses	**198**	167
671	**748**	Other receivables	**287**	258
10,964	**5,496**		**2,113**	4,217

Notes
(forming part of the financial statements)

16 Cash and cash equivalents

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
588	**849**	Cash and bank balances	**327**	226
12,445	**23,547**	Call deposit accounts	**9,056**	4,787
13,033	**24,396**		**9,383**	5,013

During the year 2008, the call deposit accounts earned interest at the rates ranging between 0.1% to 1.5% per annum (2007: 0.1% to 1.5% per annum).

17 Term deposits

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
		Bank Deposits		
9,140	**-**	Maturity of 3 months or less	**-**	3,515
-	**-**	Maturity of greater than 3 months	**-**	-
6,998	**9,997**	Debt service deposit	**3,845**	2,692
16,138	**9,997**		**3,845**	6,207

Bank deposits carry effective annual interest at the rates ranging between 2.7% and 4.65% (2007: 2% and 5.55%) and include fixed deposits of RO Nil (2007 - RO 3,115,219) with commercial banks in Oman, denominated in US Dollars and RO Nil (2007 - RO 400,000), denominated in OMR.

Under the terms of the debt financing agreement, the Company is required to maintain a debt service deposit equal to its next six months debt repayments for the period until the final instalment of the term loan. The deposits are in US Dollars with commercial banks in Oman and carrying effective annual interest rates ranging between 3.20% and 4.50% (2007: 4.5% and 5.23%).

18 Share capital

	Authorised		**Issued and fully paid**	
	2008	2007	**2008**	2007
Shares of RO 1 each (RO '000)	**20,000**	20,000	**17,984**	17,984
Shares of RO 1 each (US '000)	**52,000**	52,000	**46,758**	46,758

Share premium

Share premium of RO 2,948,569 represents premium on shares issued during year 2000 and transferred to share premium account during year 2001.

18 Share capital (continued)

Shareholders of the Company who own 10% or more of the Company's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	2008		2007	
	No. of shares	**%**	No. of shares	%
A.P. Moller Finance S.A.	**5,418,000**	**30**	5,418,000	30
Government of the Sultanate of Oman (represented by Ministry of Finance)	**3,612,000**	**20**	3,612,000	20
HSBC BK PLC a/c IB Account	**2,425,803**	**13**		
Dhofar International Development and Investment Company SAOG			1,798,374	10
Ministry of Defence – Pension Fund	**1,798,374**	**10**	1,798,374	10

Legal reserve

The Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to one-third of the Company's share capital. The reserve is not available for distribution.

Minority interest

During 2007 the Company and Public Establishment for Industrial Estates ("PEIE") together formed a 80:20 venture "Port of Salalah Development Company LLC" to pursue the property related opportunities with a share capital of RO 150,000. Commercial operations of POSDC commenced during the year.

19 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year as follows:

2007	**2008**		**2008**	2007
11,844	**11,775**	Net profit for the year (US $ '000 / RO '000)	**4,528**	4,555
17,984	**17,984**	Weighted average number of ordinary shares outstanding during the year ('000)	**17,984**	17,984
0.66	**0.66**	Basic earnings per share (US $ / RO)	**0.252**	0.253

20 Dividends

During the year, dividends of RO 0.120 per share totalling RO 2,158,049 relating to 2007 were declared and paid.

The Board of Directors has proposed Nil dividend for the year 2008 (2007: RO 0.120 per share totalling RO 2,158,049) which is subject to the approval of the shareholders at the Annual General Meeting.

Notes
(forming part of the financial statements)

21 Net assets per share

2007	2008		2008	2007
89,720	**88,262**	Net assets (US $ '000 / RO '000)	**33,946**	34,508
17,984	**17,984**	Weighted average number of shares outstanding at 31 December ('000)	**17,984**	17,984
4.99	**4.91**	Net assets per share (US $ / RO)	**1.888**	1.919

Net assets per share are calculated by dividing the net assets attributable to the ordinary shareholders of the company at the year end by the average number of ordinary shares outstanding as follows:

22 Loans and Borrowings

During the year 2004, the Company syndicated long-term loan facilities, denominated in US Dollars, from financial institutions in the aggregate amount of approximately RO 42.3 million (USD 110 million). The facilities, comprise two Tranches of RO 21.2 million (USD 55 million) each. The Company has already availed Tranche I of the loan facility of RO 21.2 million (USD 55 million). During the year 2005, the drawdown was RO 4.6 million (USD 12 million) and in 2006 RO 11.5 million (USD 30 million) from Tranche 2 of the loan facility. The remaining amount of Tranche II facility was drawn down in March 2008, thus availing Tranche II completely.

During 2008, the Company obtained a long-term loan facility, denominated in US dollars, from financial institutions for a total amount of RO 63.8 Million (USD 165.765 million). The facility comprises of two Tranches (III and IV) of RO 25.3 million (USD 65.765) and RO 38.5 million (USD 100 million). During the year RO 15.1 million (USD 39.3 million) and RO 22.6 million (USD 58.9 million) have been drawn down from Tranche III and Tranche IV respectively.

The secured lenders for the Company are BankMuscat, Gulf International Bank B.S.C and BankDhofar. BankMuscat has been appointed as security agents and trustees for the secured lenders. They are also the facility agent for administration and monitoring of the overall loan facilities.

Tranche 1 of the term loan is repayable in 12 instalments of six-monthly intervals commencing from 30 June 2004.

Tranche 2 of the term loan is repayable in 14 instalments of six-monthly intervals commencing from 30 June 2008. The Company has fixed the rate of interest through an interest rate swap agreement for 75% of its loan facility at a maximum interest rate of 4.7% per annum (refer note 26).

Tranche 3 of the term loan is repayable in 18 instalments of six-monthly intervals commencing from June 2010. The Company has fixed the rate of interest through an interest rate swap agreement for 50% of its loan facility at a maximum interest rate of 4.9% per annum.

Tranche 4 of the term loan is repayable in 16 instalments of six-monthly intervals commencing from June 2011.

Short Term loan are from a commercial bank in Oman and are repayable in 2009.

22 Loans and Borrowings (continued)

At 31 December 2008, the outstanding balances for the loans and borrowings are as follows:

	Total	1 year or less	1 - 2 years	2 - 5 years	more than 5 years
RO '000					
Tranch 1	3,612	3,612	-	-	-
Tranch 2	20,733	537	3,942	12,560	3,694
Tranch 3	15,053	-	295	2,640	12,118
Tranch 4	22,570	-	-	4,403	18,167
Short term loans	2,307	2,307	-	-	-
	64,275	6,456	4,237	19,603	33,979
US $ '000					
Tranch 1	9,391	9,391	-	-	-
Tranch 2	53,905	1,395	10,250	32,656	9,604
Tranch 3	39,138	-	767	6,864	31,507
Tranch 4	58,682	-	-	11,448	47,234
Short term loans	6,000	6,000	-	-	-
	167,116	16,786	11,017	50,968	88,345

Transaction costs related to term loans are netted off against the value of the loan and are then recognized over the life of the term loans using the effective interest method.

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying assets is capitalised as part of the costs of that assets as per *Revised IAS 23 Borrowing Costs*.

The loan agreement contains certain restrictive covenants, which include, amongst others, restrictions over debt service, net worth limit, debt equity ratios, current ratio and security cover, certain restrictions on the pattern of shareholding, payment of dividends, disposal of property, and equipment and creation of additional security on assets under charge.

The term loan facilities bear an effective interest rate of 4.15% (2007: 5.14%) incorporating the effect of hedging instrument. Short term loans carry an effective interest rate of 3.13% (2007 : Nil).

The facilities are secured by comprehensive first legal and commercial mortgages on all the assets of the Company.

Notes
(forming part of the financial statements)

23 Employees end of service benefits

Movements in the liability recognised in the balance sheet are as follows:

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
1,417	**1,680**	1 January	**646**	545
415	**794**	Accruals during the year	**305**	159
(152)	**(291)**	End of service benefit paid	**(112)**	(58)
1,680	**2,183**	31 December	**839**	646

24 Trade and other payables

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
4,670	**5,640**	Trade payables	**2,170**	1,796
4,582	**6,377**	Amounts due to related parties	**2,453**	1,763
12,586	**18,533**	Accrued expenses and other liabilities	**7,126**	4,840
21,838	**30,550**		**11,749**	8,399

25 Taxation

The tax rates applicable to the Company are 12% (2007 NIL). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 0.13 % (2007 NIL).

The difference between the applicable tax rates of 12 % and the effective tax rate of 0.13 % arises due to the tax effect of income not considered to be taxable and expenses that are not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

In accordance with Ministerial decision 73/2000 dated 28 June 2000, the Company had obtained a tax exemption for a period of 5 years commencing 29 November 1998.

The Company was granted further tax exemption in accordance with Ministerial Decision 40/2006 dated 19 June 2006 for a period of 5 years commencing 1 November 2003. The Company's tax exemption ended on 31 October 2008.

The assessments up to tax year 2002 has been finalised by the tax department. However, the Company has filed a suit in the primary court for the tax years 1999 & 2000. The Company has also filed appeals against the assessments for tax years 2001 & 2002.

Notes

(forming part of the financial statements)

25 Taxation (continued)

POSDC

The subsidiary's taxable profit for the year is less than the minimum amount subject to taxation. Therefore, the applicable tax is nil. The average effective tax rate cannot be determined as there is no tax charge for the year.

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
		Income statement		
-	**18**	Current Tax	**7**	-
2,260	**1,674**	Deferred Tax	**644**	869
2,260	**1,692**	At 31 Decemeber	**651**	869
		Current liability		
-	**18**	Current year	**7**	-
		Deferred tax liability		
5,881	**8,141**	As of 1 January	**3,131**	2,262
2,260	**1,674**	Movement for the year	**644**	869
8,141	**9,815**		**3,775**	3,131

The assessments for the years 2003 to 2007 have not been finalised with the Department of Taxation Affairs, Ministry of Finance.

26 Derivative financial instruments and hedging deficit

The Term loan facilities of the Company bear interest at USD LIBOR plus applicable margins. In accordance with the Term Loan Agreement, the Company has fixed the rates of interest applicable to the different Tranches through Interest Rate Swap agreements ("IRS").

At 31 December 2008, the USD LIBOR was approximately 2.77% (2007: 4.72%) per annum, whereas the Company had fixed interest on its long term borrowings at 4.7% on Tranche 2 and 4.9% on Tranche 3. based on the interest rates gap, over the life of the respective IRS, the indicative losses as at 31 December 2008 were assessed at RO 3,246,059 (US $ 8,439,753) (2007: RO 326,123 (US $ 847,920) Loss) by the counter parties to IRS. In case the Company terminates the IRS at 31 December 2008, it may result in a loss to the extent of RO 3,246,059 (US $ 8,439,753) (2007: RO 326,123 (US $ 847,920) Loss). In order to comply with International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" fair value of the hedge instruments' indicative losses of RO 3,246,059 (US $ 8,439,753) (2007: RO 326,123 (US $ 847,920) Loss) has been recorded within the equity of the Company under "Hedging deficit" and a similar amount is recorded under liability.

27 Related party transactions

The Company has entered into transactions with entities over which certain Directors may be able to exercise significant influence. In the normal course of business, the Company provides and avails services from related parties on commercial terms and at arm's length. The terms of providing and receiving such services are comparable with those that could be obtained from third parties. The volumes of significant related party transactions during the year and with parties with a shareholding of 10% or more in the Company and / or related to Directors, were as follows:

Notes
(forming part of the financial statements)

27 Related party transactions (continued)

2007 US $ '000	2008 US $ '000		2008 RO'000	2007 RO'000
		Revenue		
58,830	**62,153**	Maersk Shipping Services Co. LLC (Agent of Maersk Line)	**23,905**	22,627
-	**73**	Others (individually not material)	**28**	-
58,830	**62,226**		**23,933**	22,627
		Purchases and service rendered		
203	**-**	AP Moller Terminals Co. LLC	**-**	78
424	**182**	Cory Towage & Marine Services (SAOC)	**70**	163
302	**676**	Maersk Shipping Services Co. LLC (Agent of Maersk Line)	**260**	116
101	**1,095**	Maersk Training Centre & others	**421**	39
1,030	**1,953**		**751**	396
3,286	**3,315**	Management fees to A P Moller Terminals Co LLC	**1,275**	1,264
78	**78**	Directors' remuneration	**30**	30
60	**60**	Directors' sitting fees	**23**	23

28 Segmental reporting

Operating Segment

For management purposes the Company is organised into two major operating divisions – Container Terminal and General Cargo Terminal. The Container Terminal Division is engaged in leasing, equipping, operating and managing a Container Terminal. The General Cargo Terminal Division is engaged in providing stevedoring and other cargo related services to vessel and cargo operators. All activities are undertaken in the Sultanate of Oman. These Divisions are the basis on which the Company reports its primary segment information, as follows:

	Container Terminal		**General Cargo Terminal**		**Total**	
	2008 RO'000	2007 RO'000	**2008 RO'000**	2007 RO'000	**2008 RO'000**	2007 RO'000
Revenue	**37,136**	28,731	**4,310**	3,657	**41,446**	32,388
Direct operating cost	**(22,921)**	(16,515)	**(1,710)**	(1,432)	**(24,631)**	(17,947)
Common Costs					**(10,098)**	(7,799)
Profit from operations					**6,717**	6,642
Finance costs (net)					**(1,538)**	(1,218)
Net profit for the year before tax					**5,179**	5,424
Deferred tax					**(651)**	(869)
Net profit for the year					**4,528**	4,555

28 Segmental reporting (continued)

Other Information						
Segment total assets	**113,857**	68,208	**2,424**	2,993	**116,281**	71,201
Inter division balances eliminated					**1,582**	(821)
Total Assets					**117,863**	70,380
Segment total liabilities & equity	**113,857**	68,208	**2,424**	2,993	**116,281**	71,201
Inter division balances eliminated					**1,582**	(821)
Total liabilities and equity					**117,863**	70,380

	Container Terminal		**General Cargo Terminal**		**Total**	
	2008	2007	**2008**	2007	**2008**	2007
	US $'000	US $'000	**US $'000**	US $'000	**US $'000**	US $'000
Revenue	**96,554**	74,701	**11,205**	9,510	**107,759**	84,211
Direct operating cost	**(59,595)**	(42,939)	**(4,446)**	(3,721)	**(64,041)**	(46,660)
Common Costs					**(26,253)**	(20,283)
Profit from operations					**17,465**	17,268
Finance costs (net)					**(3,998)**	(3,164)
Net profit for the year before tax					**13,467**	14,104
Deferred tax					**(1,692)**	(2,260)
Net profit for the year					**11,775**	11,844
Other Information						
Segment total Assets	**296,028**	177,341	**6,308**	**9,070**	**302,336**	186,411
Inter division balances eliminated					**4,114**	**(3,422)**
Total Assets					**306,450**	182,989
Segment total liabilities & equity	**296,028**	177,341	**6,308**	9,070	**302,336**	186,411
Inter division balances eliminated					**4,114**	(3,422)
Total liabilities and equity					**306,450**	182,989

29 Commitment and contingencies

2007	**2008**		**2008**	2007
US $'000	**US $'000**		**RO'000**	RO'000
12,264	**81,713**	Capital expenditure commitments	**31,428**	12,423
12,264	**81,713**		**31,428**	12,423

Notes
(forming part of the financial statements)

29 Commitment and contingencies (continued)

Operating lease commitments

The Company entered into a lease agreement with the Government of the Sultanate of Oman in November 1998, which grants a lease of the land and infrastructure required for the Container Terminal facilities to the Company, for a term consistent with its thirty year Concession Period. Future lease payment commitments are as follows:

2007 US $'000	**2008 US $'000**		**2008 RO'000**	2007 RO'000
970	**1,001**	Not later than one year	**385**	373
4,183	**4,308**	Between one and five years	**1,657**	1,609
22,683	**21,557**	After five years	**8,291**	8,724
27,836	**26,866**		**10,333**	10,706

30 Financial risk management

The Company's activities expose it to variety of risks from its use of financial instruments :

- credit risk
- liquidity risk
- market risk

The Company has established a risk policy whose administration is vested with the Chief Executive Officer. The Chief Financial Officer is nominated as the Risk Champion and a body consisting of departmental Managers constitutes the Risk Management Committee. The workings of the Risk management framework as above is coordinated through the Audit Committee.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The carrying amount of financial assets represents the maximum credit exposure

Trade and other receivables: Credit is extended to customers only with an objective of optimizing the Company's profits and the prime responsibility for providing credit to customers and the timely collection of all debts rests with the functional manager. Credit has a cost to the business and necessary controls and procedures are established to manage the Company's credit risk and its working capital. It is therefore Company's policy to have effective credit control systems in place which are flexible enough to respond to changing market needs yet rigorous enough to ensure that customer credit limits are established and regularly updated on the basis of reliable up-to-date information.

This is an aggregate of our transactions with many customers and the risk profiles vary with their composition from time to time. Generally, the Company deals with the customers based on cash or guarantees from reputed banks. In the case of major customers who have been provided credit status, their credit worthiness have been thoroughly evaluated in advance and their credit terms are governed by their respective contracts with the Company. The Company has not witnessed any default from such major customers. The Company has an approved credit policy forming part of its financial policies and procedures. In case of exceptions provisions are created as appropriate.

Notes
(forming part of the financial statements)

30 Financial risk management (continued)

Impairment losses

The ageing of the trade receivables at the reporting date was:

2007 USD'000	**2008 USD'000**		**2008 RO'000**	2007 RO'000
5,182	**2,020**	Within Credit period	**777**	1,994
956	**460**	Past due 31-60 days	**177**	366
45	**59**	Past due 61-90 days	**22**	18
65	**62**	More than 180 Days	**24**	25
6,248	**2,601**		**1,000**	2,403

The movement in allowance for impairment in respect of trade receivables during the year was as follows:

2007 USD'000	**2008 USD'000**		**2008 RO'000**	2007 RO'000
44	**65**	1 January	**25**	17
42	**(3)**	Charge for the year	**(1)**	16
(21)	**-**	Amounts written off/back	**-**	(8)
65	**62**	31 December	**24**	25

Exposure to credit risk for trade receivables at the reporting date by geographic region

2007 USD'000	**2008 USD'000**		**2008 RO'000**	2007 RO'000
1,267	**1,813**	Oman	**697**	488
2,767	**-**	Europe	**-**	1,065
2,214	**788**	Other Asia	**303**	850
6,248	**2,601**		**1,000**	2,403

Exposure to credit risk for trade receivables at the reporting date by type of customer

2007 USD'000	**2008 USD'000**		**2008 RO'000**	2007 RO'000
4,914	**901**	Shipping Lines	**347**	1,891
1,334	**1,700**	Others	**653**	512
6,248	**2,601**		**1,000**	2,403

Notes

(forming part of the financial statements)

30 Financial risk management (continued)

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation

Trade and other payables: The Company prepares periodical forecast cash flows to assess the liquidity requirements from time to time which forms the basis for allocation of available "cash and cash equivalent" resources.

Financial obligations: The Company through an agreement with its lendors has an arrangement to place a fixed deposit of an amount equivalent to the next instalment (which is not less than 6 months at any point of time) which ensures that adequate care is accorded.

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk: The Company's income is generally based in US dollars to which the local currency viz. Omani Rial is pegged. Therefore, the effect on the comparable financial statements are minimal. However, it affects the alternative currency purchases. This is partly mitigated by opting for purchase of alternate currencies when such requirements can be forecasted well in advance. Depending on emerging scenarios the Company may opt for appropriate risk mitigating measures.

Interest rate risk: Variance in interest rates affects the financial statements of the Company. With a view to minimizing this effect the Company has adopted policy of hedging outstanding loans at specific interest rates swaps. At 31 December 2008 approximately 36% of the outstanding loans are at fixed rate of interest (2007: 74%). The following table summarises the impact of interest rate changes:

2007	**2008**		**2008**	2007
USD'000	**USD'000**		**RO'000**	RO'000
100	**100**	Increase in basis points	**100**	100
(36)	**(218)**	Effect on profit before tax	**(84)**	(14)
100	**100**	Decrease in basis points	**100**	100
36	**218**	Effect on profit before tax	**84**	14

Investments: The Company generally does not invest in stock markets. The Company has an investment in 100,000 equity shares of face value RO 1.000 in Dhofar University SAOG. The investment was made primarily with an objective of promoting higher education in the Dhofar region.

Capital management : The Company recognizes the importance of maintenance of a strong capital base which would assist in maintenance of investor, creditor and market confidence. With this end in view, the Company has in place adequate mechanisms to monitor return on capital, shareholder value creation, etc.

The Board of Directors monitors the return on equity, which the Company defines as net profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Company's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes
(forming part of the financial statements)

31 Fair Values of the Financial instruments

Financial instruments comprise financial assets ,financial liabilities and derivatives.

Financial assets consist of cash and bank balances, term deposits and receivables. Financial liabilities consist of payables term loans and accrued expenses.Derivatives consist of interest rate swap arrangements entered by the Company.The fair values of the financial assets,financial liabilities and derivatives at the balance sheet date are not materially different from their carrying values

32 Key Sources of Estimation uncertainty

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the balance sheet date, gross trade accounts receivable were RO 1,023,465 (US $ 2,661,009) [2007 – RO 1,356,981 (US $ 3,528,151)] and the provision for doubtful debts was RO 23,469. (US $ 61,019.) (2007 – RO 24,470 (US $ 63,662)). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the balance sheet date, gross inventories were RO 2,873,271 (US $ 7,470,505) [2007 – RO 1,981,809 (US $ 5,152,703)] and provisions for old and obsolete inventories was RO 627,283 (US $ 1,630,936) [2007 – RO 508,174 (US $ 1,321,252)]. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the income statement.

33 Comparative figures

Certain comparative figures have been reclassified in order to conform to the presentation of the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.

11 Property and Equipment

for the year ended 31 December 2008

	Leasehold improvements RO '000	Quay gantry cranes RO '000	Rubber tyre gantry cranes RO '000	Tractors and trailors RO '000	Forklifts and reach Stackers RO '000	Marine equipment RO '000	Motor vehicles RO '000	Computer equipment and software RO '000	Furniture, fixtures and equipment RO '000	Capital work in progress RO '000	Total RO '000
Cost											
1 January 2008	1,224	41,316	18,719	5,175	1,399	6,841	534	1,766	1,879	370	79,223
Additions / Recognition				-		4,479				52,023	56,502
Transfer from CWIP	359	6,820	15,981	1,884	1,356	309	225	286	569	(27,789)	-
Disposal / Derecognition	-	-	-	-	-	(5,651)	(29)	-	-	-	(5,680)
31 December 2008	1,583	48,136	34,700	7,059	2,755	5,978	730	2,052	2,448	24,604	130,045
Accumulated depreciation											
1 January 2008	(1,123)	(9,382)	(6,506)	(2,546)	(1,166)	(1,650)	(484)	(1,688)	(1,681)	-	(26,226)
Depreciation for the year	(85)	(1,876)	(1,619)	(560)	(253)	(587)	(62)	(92)	(187)	-	(5,321)
Disposal	-	-	-	-	-	1,301	29	-	-	-	1,330
31 December 2008	(1,208)	(11,258)	(8,125)	(3,106)	(1,419)	(936)	(517)	(1,780)	(1,868)	-	(30,217)
Carrying amounts											
31 December 2008	**375**	**36,878**	**26,575**	**3,953**	**1,336**	**5,042**	**213**	**272**	**580**	**24,604**	**99,828**
31 December 2007	101	31,934	12,213	2,629	233	5,191	50	78	198	370	52,997

11 Property and Equipment

for the year ended 31 December 2008

	Leasehold improvements USD '000	Quay gantry cranes USD '000	Rubber tyre gantry cranes USD '000	Tractors and trailors USD '000	Forklifts and reach Stackers USD '000	Marine equipment USD '000	Motor vehicles USD '000	Computer equipment and software USD '000	Furniture, fixtures and equipment USD '000	Capital work in progress USD '000	Total USD '000
Cost											
1 January 2008	3,180	107,421	48,668	13,460	3,638	17,787	1,388	4,591	4,889	962	205,984
Additions / Recognition				-		11,646				135,261	146,907
Transfer from CWIP	933	17,732	41,551	4,897	3,525	804	586	744	1,480	(72,252)	-
Disposal / Derecognition	-	-	-	-	-	(14,693)	(75)	-	-	-	(14,768)
31 December 2008	4,113	125,153	90,219	18,357	7,163	15,544	1,899	5,335	6,369	63,971	338,123
Accumulated depreciation											
1 January 2008	(2,919)	(24,394)	(16,915)	(6,622)	(3,033)	(4,292)	(1,256)	(4,391)	(4,370)	-	(68,192)
Depreciation for the year	(220)	(4,878)	(4,208)	(1,456)	(658)	(1,527)	(160)	(239)	(486)	-	(13,832)
Disposal / Derecognition	-	-	-	-	-	3,383	75	-	-	-	3,458
31 December 2008	(3,139)	(29,272)	(21,123)	(8,078)	(3,691)	(2,436)	(1,341)	(4,630)	(4,856)	-	(78,566)
Carrying amounts											
31 December 2008	**974**	**95,881**	**69,096**	**10,279**	**3,472**	**13,108**	**558**	**705**	**1,513**	**63,971**	**259,557**
31 December 2007	261	83,027	31,753	6,838	605	13,495	132	200	519	962	137,792

Income statement
(forming part of the financial statements)

Salalah Port Services Company SAOG (Parent Company)
(Schedule to the consolidated financial statements)

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
84,211	**107,755**	Revenue	**41,445**	32,388
(46,660)	**(64,102)**	Direct operating costs	**(24,654)**	(17,947)
(10,813)	**(12,349)**	Other operating expenses	**(4,750)**	(4,158)
(9,946)	**(14,419)**	Administration and general expenses	**(5,546)**	(3,824)
480	**558**	Other income	**215**	185
17,272	**17,443**	**Profit from operations**	**6,710**	6,644
(3,164)	**(3,998)**	Net finance costs	**(1,538)**	(1,218)
14,108	**13,445**	**Profit for the year before tax**	**5,172**	5,426
(2,260)	**(1,692)**	Income tax	**(651)**	(869)
11,848	**11,753**	**Profit for the year**	**4,521**	4,557
0.66	**0.65**	**Basic earnings per share (US $ / RO)**	**0.251**	0.253

Port of Salalah

Balance sheet

as at 31 December 2008

Salalah Port Services Company SAOG (Parent Company)

(Schedule to the consolidated financial statements)

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
		ASSETS		
		Non Current Assets		
137,283	**258,980**	Property and equipment	**99,607**	52,801
782	**744**	Intangible assets	**286**	300
754	**728**	Available for sale investments	**280**	290
138,819	**260,452**		**100,173**	53,391
		Current Assets		
3,838	**5,844**	Inventories	**2,248**	1,476
11,215	**5,496**	Trade and other receivables	**2,113**	4,313
12,902	**24,202**	Cash and cash equivalents	**9,309**	4,963
16,138	**9,997**	Term deposits	**3,845**	6,207
44,093	**45,539**		**17,515**	16,959
182,912	**305,991**	**TOTAL ASSETS**	**117,688**	70,350
		EQUITY		
46,758	**46,758**	Share capital	**17,984**	17,984
7,666	**7,666**	Share premium	**2,949**	2,949
6,922	**8,098**	Legal reserve	**3,114**	2,662
(850)	**(8,442)**	Hedging deficit	**(3,246)**	(327)
182	**156**	Revaluation surplus	**60**	70
29,046	**34,012**	Retained earnings	**13,083**	11,172
89,724	**88,248**	**TOTAL EQUITY**	**33,944**	34,510
		LIABILITIES		
		Non Current Liabilities		
50,556	**150,330**	Loans and borrowings	**57,819**	19,444
8,141	**9,815**	Deferred tax	**3,775**	3,131
1,680	**2,183**	Employees' end of service benefits	**839**	646
663	**7,043**	Derivative financial instruments	**2,709**	255
61,040	**169,371**		**65,142**	23,476
		Current Liabilities		
21,835	**30,187**	Trade and other payables	**11,608**	8,397
10,126	**16,786**	Loans and borrowings	**6,456**	3,895
187	**1,399**	Derivative financial instruments	**538**	72
32,148	**48,372**		**18,602**	12,364
93,188	**217,743**	**TOTAL LIABILITIES**	**83,744**	35,840
182,912	**305,991**	**TOTAL EQUITY AND LIABILITIES**	**117,688**	70,350
4.99	**4.91**	**Net assets per share (US $ / RO)**	**1.887**	1.919

Statement of changes in equity

For the year ended 31 December 2008

Salalah Port Services Company SAOG (Parent Company)

(Schedule to the consolidated financial statements)

	Share capital RO '000	Share premium RO '000	Legal reserve RO '000	Hedging surplus / (deficit) RO '000	Revaluation surplus RO '000	Retained earnings RO '000	Total RO '000
1 January 2007	17,984	2,949	2,206	450	-	9,229	32,818
Dividend paid	-	-	-	-	-	(2,158)	(2,158)
Net profit for the year	-	-	-	-	-	4,557	4,557
Fair value adjustment	-	-	-	(777)	70	-	(707)
Transfer	-	-	456	-	-	(456)	-
31 December 2007	17,984	2,949	2,662	(327)	70	11,172	34,510
Dividend paid	-	-	-	-	-	(2,158)	(2,158)
Net profit for the year	-	-	-	-	-	4,521	4,521
Fair value adjustment	-	-	-	(2,919)	(10)	-	(2,929)
Transfer / Acquisition	-	-	452	-	-	(452)	-
31 December 2008	**17,984**	**2,949**	**3,114**	**(3,246)**	**60**	**13,083**	**33,944**

	Share capital US $ '000	Share premium US $ '000	Legal reserve US $ '000	Hedging surplus / (deficit) US $ '000	Revaluation surplus US $ '000	Retained earnings US $ '000	Total US $ '000
1 January 2007	46,758	7,666	5,737	1,171	-	23,994	85,326
Dividend paid	-	-	-	-	-	(5,611)	(5,611)
Net profit for the year	-	-	-	-	-	11,848	11,848
Fair value adjustment	-	-	-	(2,021)	182	-	(1,839)
Transfer	-	-	1,185	-	-	(1,185)	-
31 December 2007	46,758	7,666	6,922	(850)	182	29,046	89,724
Dividend paid	-	-	-	-	-	(5,611)	(5,611)
Net profit for the year	-	-	-	-	-	11,753	11,753
Fair value adjustment	-	-	-	(7,592)	(26)	-	(7,618)
Transfer / Acquisition	-	-	1,176	-	-	(1,176)	-
31 December 2008	**46,758**	**7,666**	**8,098**	**(8,442)**	**156**	**34,012**	**88,248**

Cash flow statement

for the year ended 31 December 2008

Salalah Port Services Company SAOG (Parent Company)

(Schedule to the consolidated financial statements)

2007 US $ '000	**2008 US $ '000**		**2008 RO'000**	2007 RO'000
		Operating activities		
14,108	**13,445**	Profit for the year before tax	**5,172**	5,426
		Adjustments for:		
10,296	**13,842**	Depreciation and amortisation	**5,325**	3,961
415	**794**	Accrual for employees' end of service benefits	**305**	159
(95)	**(3)**	Gain on sale of equipment	**(1)**	(37)
(807)	**(650)**	Interest income	**(250)**	(310)
3,938	**4,582**	Interest expense	**1,762**	1,515
27,855	**32,010**	Operating profit before working capital changes	**12,313**	10,714
421	**(2,006)**	Change in inventories	**(772)**	162
(1,352)	**5,719**	Change in receivables	**2,200**	(520)
8,172	**8,334**	Change in payables	**3,204**	3,145
(151)	**(291)**	Employees' end of service benefits paid	**(112)**	(58)
34,945	**43,766**	**Net cash from operating activities**	**16,833**	13,443
		Investing activities		
(16,744)	**(135,501)**	Acquisition of equipment	**(52,116)**	(6,440)
193	**3**	Proceeds from sale of equipment	**1**	74
(2,015)	**9,140**	(Increase) / decrease in bank term deposits	**3,515**	(775)
516	**(2,999)**	(Increase) /decrease in other term deposits	**(1,153)**	198
807	**650**	Interest received	**250**	310
(312)		Increase in Investments		(120)
(17,555)	**(128,707)**	**Net cash used in investing activities**	**(49,503)**	(6,753)
		Financing activities		
-	**117,257**	Proceeds from loans and borrowings	**45,099**	-
(9,201)	**(10,823)**	Repayment of loans and borrowings	**(4,163)**	(3,540)
(5,611)	**(5,611)**	Dividend paid	**(2,158)**	(2,158)
(3,938)	**(4,582)**	Interest paid	**(1,762)**	(1,515)
(18,750)	**96,244**	**Net cash used in financing activities**	**37,016**	(7,213)
(1,360)	**11,300**	Net increase / (decrease) in cash and cash equivalents	**4,346**	(523)
14,262	**12,902**	**Cash and cash equivalents at 1 January**	**4,963**	5,486
12,902	**24,202**	**Cash and cash equivalents at 31 December**	**9,309**	4,963