



Director's Report for the Quarter ended 31st March 2017

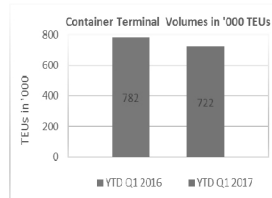
Dear Shareholders,

On behalf of the Board of Directors, I have the pleasure in presenting the unaudited consolidated financial results of your company for the first quarter ended March 31, 2017 (Q1 2017).

Company Performance

During Q1, 2017 Port of Salalah has witnessed lower volumes at the Container Terminal (CT) as well as General Cargo Terminal (GCT) compared to the corresponding period last year. One of the shipping lines customer reduced their transshipment volumes through the port, though the management is actively engaging with them to regain the volumes.

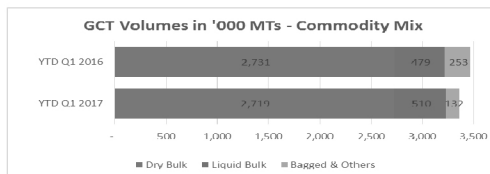
The CT has handled 722k TEUs (Twenty-foot Equivalent Units) during Q1 2017, which is 8% decrease as compared with corresponding period last year.



On productivity, the CT has registered consistent improvements in Berth Moves per Hour (BMPH) during Q1 2017 leading to a growth of 21% compared to the same period last year. This showcases the

organization's success in focusing on continuous improvements.

The GCT has handled 3.361 million tons of general cargo during Q1 2017, recording a decrease of 3% as compared to Q1 2016. The major commodities handled are namely limestone, gypsum, methanol and cement, which are exported from Salalah to nearby markets, and continue to drive the general cargo business.



Financial Overview

Due to drop in CT and GCT volumes and changes in Oman Income Tax Laws requiring the company to provide a higher deferred tax liability of RO 1.483 million, the Q1 2017 results turned negative. Consolidated net loss for Q1 2017 was recorded at RO (1.020) million, as compared to the profit of RO 1.567 million in corresponding period last year.

Consolidated EBITDA was recorded at RO 2.586 million for Q1 2017 at an EBITDA margin of 21%, as compared to RO 4.169 million (30%) during same period last year.

Revenues of GCT have decreased 6% compared to the same period last year whereas the CT revenue has decreased by 14% as

compared to corresponding period last year. The general cargo volumes handled at Berth 31 have been included in the container terminal financials, as in the previous year, due to the conversion of the berth into a container terminal facility.

Direct operating costs comprising direct manpower costs, repairs & maintenance costs, energy costs and marine costs, have increased by 9% compared to the corresponding period last year mainly due to annual salary increases and associated costs, increased power cost and need based repair and maintenance of ageing equipments.

Administration and General costs have decreased 25% as compared to the same period last year mainly due to cost improvements measures initiated by the management.

Financing costs were 31% lower as compared to same period last year on account of repayment of debts.

Year	Particulars	1 Jan 2017 to 31st Mar 2017	1 Jan 2016 to 31st Mar 2016
Volume			
3,325	Container Terminal (TEUs'000)	722	782
13,037	General Cargo Terminal (Tons'000)	3,361	3,464
Revenue (RO'000)			
54,872		12,193	13,768
Profitability (RO'000)			
6,501	Net Profit before tax	540	1,844
5,726	Net Profit/ (Loss) after tax	(1,020)	1,567
Ratios			
10.44	Net profit / (Loss) (%)	(8.37%)	11.38
0.032	Earnings per share (RO)	(0.006)	0.009
0.300	Book value per share (RO)	0.296	0.276

Employee Development

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

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

Corporate Social Responsibility (CSR)

As part of its ongoing commitment to support and contribute to the progress and sustainable development of local communities in which we operate, the company has supported number of CSR initiatives mainly to support education and community's services project during Q1, 2017.

Future Outlook

Outlook for the year 2017 for the containerized shipping industry continues to be tentative with significant rationalization still being announced by both the Ocean Alliance and The Alliance network. The weak global demand and consolidations in shipping alliances will put even more pressure on Terminal Operators to remain competitive and profitable. Additionally, over capacity in the terminals in the GCC, Indian Subcontinent, and growing terminal capacity in East Africa is worrying for the long term prospect of seeing any improvement in the rates for discretionary transshipment.

In the Port of Salalah, the outlook remains neutral. Developing more gate cargo remains the essential priority to anchor new and additional business in the Port. Gate cargo development is directly tied to economic growth and activity in the Dhofar region. New projects in the free zone have an immediate positive impact on the gate volumes, and more encouragement of growth in the free zone and investment in industry will increase gate cargo.

There continues to be strong focus on increasing the diversity of shipping lines in the Port of Salalah Discussions ongoing with existing customers for improving value by offering trucking services and therefore a differentiated product for the Yemen transit cargo.

On the General Cargo side, the sudden announcement of additional custom duty and surcharges without any prior notice resulted in the complete stoppage of exports for almost a week and has questioned the confidence from potential investors and users of the port about the possibility of such charges being levied without notices in the future. Damage mitigation exercise is underway.

With the Government actions to mitigate the fall in revenue due to low oil prices, the cost of doing business in Oman is rising with limited options for the Port to pass on the costs to customers.

Conclusion

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

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

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

On behalf of the Board of Directors,

Braik Musallam Al Amri
Chairman of the Meeting
Salalah Port Services Co. SAOG
May 11, 2017

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

31-Mar-16 US \$ '000	31-Mar-17 US \$ '000		31-Mar-17 RO'000	31-Mar-16 RO'000
181,137	172,593	ASSETS		
470	427	Non Current Assets		
772	725	Property and equipment	66,381	69,668
39,000	39,000	Intangible assets	164	181
		Available-for-sale investments	279	287
		Term deposits	15,000	15,000
221,379	212,745		81,824	85,146
		Current Assets		
4,457	5,451	Inventories	2,096	1,714
28,415	26,365	Trade and other receivables	10,141	10,929
13,000	10,400	Short term deposits	4,000	5,000
20,449	20,033	Cash and cash equivalents	7,705	7,865
66,321	62,249		23,942	25,508
287,700	274,994	TOTAL ASSETS	105,766	110,653
		EQUITY		
46,758	46,758	Share capital	17,984	17,984
7,666	7,666	Share premium	2,949	2,949
15,584	15,584	Legal reserve	5,994	5,994
(2,140)	(704)	Hedging deficit	(271)	(823)
252	205	Fair value reserve	79	97
60,730	68,846	Retained earnings	26,479	23,356
128,851	138,355	Equity attributable to equity holders of the parent company	53,214	49,55
41	90	Non controlling interests	34	16
128,892	138,445	TOTAL EQUITY	53,248	49,573
		LIABILITIES		
		Non Current Liabilities		
46,430	23,215	Loans and borrowings	8,929	17,858
16,944	19,289	Deferred tax	7,418	6,517
6,115	6,985	Employees' end of service benefits	2,686	2,352
853	97	Derivative financial instruments	37	328
70,343	49,587		19,070	27,055
		Current Liabilities		
63,963	63,139	Trade and other payables	24,284	24,601
23,215	23,215	Loans and borrowings	8,929	8,929
1,287	608	Derivative financial instruments	234	495
88,465	86,962		33,447	34,025
158,808	136,549	TOTAL LIABILITIES	52,518	61,080
287,700	274,994	TOTAL EQUITY AND LIABILITIES	105,766	110,653
0.72	0.77	Net assets per share (US \$ / RO)	0.296	0.276

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 MARCH 2017

31-Mar-16 US \$ '000	31-Mar-17 US \$ '000		31-Mar-17 RO'000	31-Mar-16 RO'000
35,796	31,704	Revenue	12,193	13,768
(20,794)	(22,621)	Direct operating costs	(8,699)	(7,998)
(4,422)	(3,369)	Other operating expenses	(1,295)	(1,701)
(5,862)	(4,388)	Administration and general expenses	(1,681)	(2,255)
818	572	Other income	220	315
5,536	1,898	Profit from operations	738	2,129
(738)	(515)	Finance costs	(198)	(285)
4,798	1,383	Profit for the period before tax	540	1,844
(720)	(4,056)	Income tax	(1,560)	(277)
4,078	(2,673)	Profit for the year	(1,020)	1,567
		Other comprehensive income		
		Items that will be never reclassified to profit or loss		
		Revaluation of property, plant and equipment	-	-
		Items that are or may be reclassified to profit or loss		
		Fair value change of investments	-	-
(200)	588	Net movement in cash flow hedges	226	(77)
(200)	588		226	(77)
(200)	588	Other comprehensive income for the period, net of tax	226	(77)
3,878	(2,085)	Total comprehensive income for the period, net of tax	(794)	1,490
		Profit attributable to :		
4,089	(2,673)	Equity holders of the parent	(1,020)	1,571
(10)	-	Non-controlling interests	0	(4)
3,888	(2,085)	Total comprehensive income attributable to :	(794)	1,494
(10)	-	Equity holders of the parent	0	(4)
0.02	(0.01)	Basic earnings per share (US \$ / RO)	(0.006)	0.009