Directors' Report

On behalf of the Board of Directors, I am pleased to present the Unaudited consolidated financial results of Salalah Port Services Co. (SAOG) and its subsidiary for the three months ended 31 March 2010.

It is a pleasure to inform you all that Port of Salalah was ranked among Top 30 ports in the world based on volumes handled during 2009, first time in its history as per a report released by Containerisation International recently. This is a testimony to the fact that Port of Salalah has proven to be a strategic transhipment port within the middle-east region for our customers.

Industry news:

Containerized volumes on all the major east-west trades experienced double digit declines in 2009, delivery of a large number of new vessels from the world's shipyards occurred simultaneously providing over capacity and leading to shipping lines having to take measures such as cutting strings, laying up vessels and adoption of slow steaming to reduce fuel consumption.

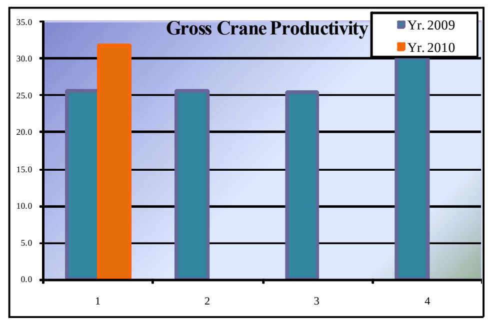
Recovery in container volumes is slow but positive and based on figures for the final quarter of 2009 and first quarter of 2010 experts have upgraded their forecasts for global container traffic growth in 2010 from 3.4% to 5.4 %.

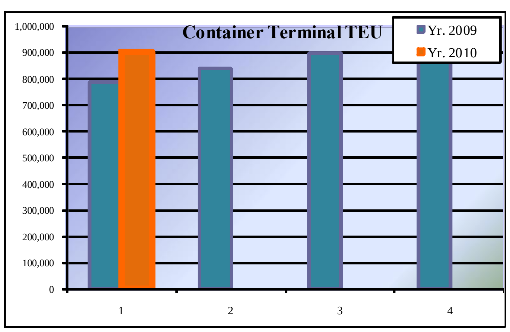
We foresee that shipping lines financial problems will cause them to put significant pressure on terminal operators to reduce rates and not pass on inflationary cost increases. Conditions should induce carriers to continue to consolidate strings where feasible in order to deploy their new and existing tonnage in a manner that will not increase overall capacity, thus maintaining existing utilization rates, while lowering unit cost levels.

Business Review:

The Container terminal recorded a throughput of 906K TEUs during the quarter, a growth of 15% over Q1 2009. The main drivers of the growth in volumes were accommodation of a new customer, CMA CGM during the last quarter of 2009 along with service re-alignments and increase in services by existing customers.

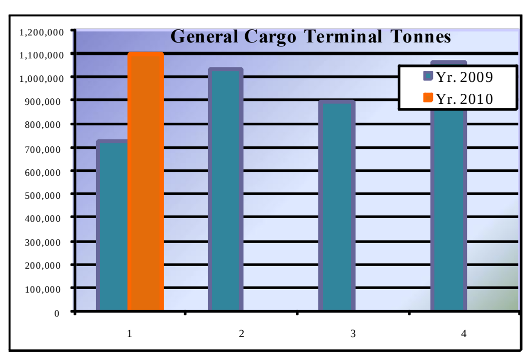
Productivity at the container terminal increased to 31.9 GMPH in Q1 2010 from 25.7 GMPH in Q1 2009. The increase was a result of continued improvements in operational efficiencies. During Jan 2010, the company recorded its highest ever monthly productivity of 34.2 GMPH.





In order for Port of Salalah to best capitalize on near term opportunities that could arise from shipping lines deploying new and larger Post-Panamax vessels we will have to exploit our strengths such as location and superior infrastructure and mitigate our weaknesses such as lack of import/export trade and negative effects of Somalia piracy by targeting new shipping lines who are looking to take advantage of their new larger vessels by finding a safe regional hub that offers network advantages, has available capacity, high productivity and tangible cost savings.

The General Cargo Terminal recorded a throughput of 1.1 million tonnes during the quarter, a significant growth of 51% as compared to Q1 2009. Increase in dry bulk volumes contributed to the increase. The general cargo terminal would continue to play a dominant role in the economic development of the Dhofar region by providing and facilitating the export of commodities such as limestone and gypsum.



Safety and Environment:

The company provides a lot of impetus on making the Port a safe place to work for employees, contractors etc., and with respect to which the company organised various events such as lasher awareness, implementation of unsafe acts reports, safety inductions course during the 1st quarter.

Further, the management is extremely concerned with the issue of climate change and are committed to being faithful and responsible stewards of the environment. The company will look for both technical and human improvements to reduce our CO_2 emissions.

Port of Salalah is committed to playing an important role in the environmental performance improvements that are so urgently needed to ensure the future of our planet and our children and we look forward to the challenges ahead as an integral part of our Corporate Social Responsibility strategy.

Financial highlights:

Consolidated Revenues for Q1 2010 were RO 12.87 million as against our Q1 2009 revenue of RO 10.76 million. Container Terminal and the General Cargo Terminal registered a growth of 17.1% and 37.7% respectively over Q1 2009.

Direct operating costs remained almost at similar levels of Q1 2009 due to optimization of cost structure. The manpower costs decreased by 3% as compared to the Q1 2009 due to initiatives taken to reduce manpower during 2nd quarter 2009 thereby bringing an optimal manning structure based on volume trends.

Operating depreciation in Q1 2010 increased by 23% due to addition of 4 Quay Cranes and other ancillary equipments and reduction of expected useful life of marine equipments. However other components under direct operating costs reduced by 15% due to the cost saving initiatives pioneered by the management starting 2nd quarter 2009.

Other operating costs increased by 65% over Q1 2009 due to higher concession costs.

Other income includes extraordinary income of USD 2.6 million received from APM terminals towards compensation in lieu of right to purchase the shares in Aqaba container terminal.

General and administration costs were lower by 4% as compared to Q1 2009 due to several cost reduction initiatives implemented at the terminal.

Financing costs increased by 44% over Q1 2009 due to increased drawdown of term loans to pay capital commitments on procurement of quay cranes, RTGs, tractors and trailers during 2009. No additional draw downs were made during the Q1 2010.

Consolidated net profit for Q1 2010 was recorded at RO 1.92 million as compared to RO 290 K for Q1 2009.

Year 2009		1 January 2010 to 31 March 2010	1 January 2009 to 31 March 2009
	Volume'000		
3,493	Container Terminal – TEU	**906**	791
3,722	General Cargo Terminal – Tonnes	**1,100**	728
47,680	**Revenue'000**	**12,870**	10,761
26.6	Gross Productivity - *Moves per hour*	**31.6**	25.7
	Profitability		
5,281	Net Profit before tax (RO'000)	**2,199**	357
4,535	Net Profit after tax (RO'000)	**1,942**	300
	Ratios		
10%	Net profit margin	**15%**	3%
0.025	Earnings per share (RO)	**0.011**	0.002
0.221	Book value per share (RO)	**0.214**	0.187

Developments and outlook:
The recovery in world container trade is expected to further boost volumes and the management expects to handle 4.2 million TEUs during 2010. General cargo terminal business is expected to continue doing well with the developments at the Salalah Free zone.
Management's top priorities for the year will be to take costs out and drcive performance to ensure we provide sustainable returns to our shareholders in the long term.

Abdul Aziz Ali Shanfari
Chairman