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 six months ended 30 June 2010.

Port Industry news:

Global trade volumes have been showing signs of recovery, however cost-cutting initiatives remain in place throughout the transportation industry, particularly among shipping lines, and higher productivity among port and terminal operators will be essential to remain competitive.

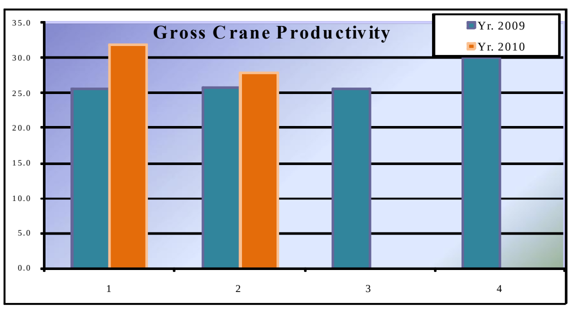
New adjustments are being made continuously after having passed the ñstress testò represented by the steep 10% drop in global container volume caused by the world-wide recession in 2009. Many shipping lines will have to take delivery of vessel order prior to the recession causing Ultra-Large Container Ships with capacities of over 10,000 TEUs to be added to the global liner fleet. The highly competitive nature of the industry means that not all port and terminal operators will be able to succeed in the present economic scenario of slower growth projections and downward rate pressure.

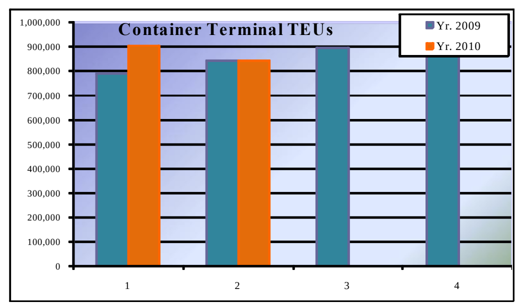
Restricted capital resources and the curtailed role of external financial investors will result in significantly more deliberation on the merits of proposed port projects and considerably less speculative port expansion despite the demonstrated need for infrastructure development in emerging markets.

Business Review:

The Container terminal recorded a throughput of 1,751 K TEUõs, a growth of 7% for the period under review. The main drivers of the growth in volumes were increase in direct services by existing customers and volume from a new customer CMA CGM.

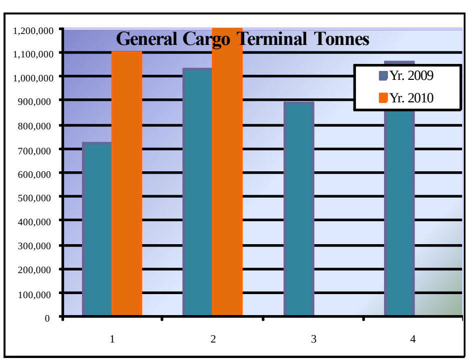
Productivity at the container terminal increased to 29.8 GMPH from 25.7 GMPH for the period under review as compared to last year. This was a result of various measures to improve operational efficiencies, including several incentive programs for the workforce etc.





The outlook for 2010 remains positive as the container shipping industry has rebounded solidly from the crisis. Shipment volumes are now approaching the levels of 2008 with the only obstacle being a lack of containers. Shipping lines in the near future will see the orders placed for large vessels (+10,000 teu) culminating and deliveries happening from the shipyards which would suit the hub and spoke network model that favors Port of Salalah.

The General Cargo Terminal recorded a throughput of 2.92 million tonnes during the first six months of the year, a significant growth of 66% as compared to the same period last year. An increase in dry bulk volumes was the ket contributor to the increase. The general cargo terminal will continue to play a dominant role in the economic development of the region by providing and facilitating the export of commodities such as limestone, gypsum, cement and commodities originating from the free zone.



Safety and Environment:

The company provides a lot of impetus on making the Port a safe place to work for employees and all port users. In this regard during the first six months of the year the company organised a number of safety awareness courses for all staff, safety induction course for port users and has formulated a joint emergency response plan with other companies and government entities in Salalah.

Port of Salalah won the special jury award at the Oman Greens Awards function held in June set up to honour outstanding environmental vision, endeavours and achievements. Port of Salalah excelled in multiple environmental initiatives.

Financial highlights:

Consolidated Revenues for first six months were RO 25.74 million as against RO 22.27 million for same period in 2009. Container Terminal and the General Cargo Terminal registered a growth of 7% and 66% respectively over same period in 2009.

Direct operating costs were lower compared to same period in 2009 due to optimization of cost structure. The manpower costs decreased by 5% as compared to the same period in 2009 due to initiatives to optimise manpower during 2nd quarter 2009 thereby adjusting the manning structure based on volume trends.

However, Operating depreciation for first six months increased by 16% due to addition of 4 Quay Cranes and other ancillary equipments. However other components under direct operating costs reduced by 7% due to the continuous cost saving initiatives.

Other operating costs for first six months increased by 53% over same period in 2009 due to higher concession costs and management fees based on increased volumes and profits.

General and administration costs for the first six months were lower by 8% as compared to same period in 2009 due to several cost reduction initiatives implemented at the terminal.

Financing costs for the period increased by 36% over same period in 2009 due to increased drawdown of term loans to pay capital commitments on procurement of quay cranes, RTGs, tractors and trailers etc. during 2009. Additional draw down of RO 4.61 were made during the Q2 2010.

Income tax includes an accounting adjustment of RO 457K on deferred tax.

Consolidated net profit for first six months was recorded at RO 3.42 million as compared to RO 743 K the same period in 2009.

Year 2009		**1 January 2010 to 30 June 2010**	**1 January 2009 to 30 June 2009**
	Volume'000		
3,493	Container Terminal ï TEU	**1,752**	**1,634**
3,722	General Cargo Terminal ï Tonnes	**2,923**	**1,762**
47,680	**Revenue'000**	**25,740**	**22,276**
26.6	Gross Productivity - *Moves per hour*	**29.8**	**25.7**
	Profitability		
5,281	Net Profit before tax (ROô000)	**3,216**	**820**
4,535	Net Profit after tax (ROô000)	**3,416**	**743**
	Ratios		
10%	Net profit margin	**13%**	**3%**
0.025	Earnings per share (RO)	**0.019**	**0.004**
0.221	Book value per share (RO)	**0.218**	**0.201**

Developments and outlook:

The recovery in world container trade is expected to further boost volumes in the second half of the year and the management expects to maintain similar levels of growth by end of this year. General cargo terminal business is expected to continue doing well and the developments at the Salalah Free zone are expected to boost export activities.

Managementôs top priorities for the year will be to reduce costs and drive performance to ensure we provide sustainable returns to our shareholders in the long term.

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Abdul Aziz Ali Shanfari
Chairman