Port of Salalah

Results for the Second Quarter ended 30 June 2012

Chairman's 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 half year ended 30 June 2012.

Macro economics:

Global economic growth for 2012 is projected at 3.5%, whereby advanced economies are expected to grow at 1.3% and emerging markets and developing economies together are expected to grow at 5.6%, according to The Conference Board U.S. Economic Forecast. Further analysis projects that the recovery in advanced economies would be offset by a gradual slowdown in emerging economies as they mature, with the net result that global growth will be slow. Almost all major shipping lines have announced rate increases ranging between USD 250 to USD 350 per TEU effective August 2012. The weak economic growth scenario has significant bearing on global trade and as a result port activities are expected to be under continued rate pressure.

Business Review:

The Port's Container Terminal operations recorded a throughput of 920K TEUs (Twenty-foot Equivalent Unit) in the second quarter of 2012, representing 18% year-on-year growth, and an achievement for its highest container volume handling in the Port's 14 year history. A new gulf feeder service announced by Oman Container Lines in Q1 2012, facilitating fast and efficient transport of containers connecting through Salalah, Muscat, and Jebel Ali, is expected to further support the Container Terminal's transhipment and local volumes.

Average productivity at the Container Terminal was 29.60 Gantry Moves Per Hour (GMPH) for Q2 2012 compared to 27.0 GMPH during Q2 2011. Productivity has significantly improved in Q2 due to a number of factors, chief among them an increase in blue collar staff recruitment during December 2011 and February 2012 whereby trained staff was in place to handle the incoming container traffic volumes, in addition to the introduction of the company's Monthly Bonus Incentive for blue collar staff which has aligned productivity targets with financial compensation in a monthly plan that is to be paid out in a lump sum in March 2013. The Monthly Bonus Incentive has come into effect from 01 May 2012 and is a part of the solutions that management is delivering to enhance performance evaluation and the performance culture within the organization.

The Port's General Cargo Terminal operations have recorded a throughput of 1.990 million tonnes during the second quarter 2012, representing a growth of 10% year-on-year. 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 Omani commodities such as limestone, gypsum, cement, liquid bulk and others. The Port management is also working to expand the utilization of the General Cargo Terminal by broadening the customer and cargo base.

The Port of Salalah and the Salalah Free Zone complement each other in the region's economic development. The Port management is working alongside the Salalah Freezone, Oman Air, local airport and other stakeholders to ensure multi-modal transport solutions and services are easily accessible for local, regional and international businesses to serve their customers from the Salalah Hub location. By way of downstream activities the Salalah Hub would also provide further opportunities for local development and employment.

Financial Highlights:

Year 2011		1 January 2012 to 30 June 2012	1 January 2011 to 30 June 2011
	Volume'000		
3,201	Container Terminal – TEU	**1,842**	1,671
6,519	General Cargo Terminal – Tonnes	**3,611**	3,291
49,822	**Revenue'000**	**27,925**	25,551
28.51	Gross Productivity - Moves per hour	**29.16**	28.55
	Profitability		
2,694	Net Profit before tax (RO'000)	**3,855**	1,034
2,361	Net Profit after tax (RO'000)	**3,240**	865
	Ratios		
4.7%	Net profit margin	**11.6%**	3.4%
0.013	Earnings per share (RO)	**0.018**	0.005
0.221	Book value per share (RO)	**0.224**	0.209

Consolidated revenues for the half year ended 30 June 2012 were RO 27.93 million against RO 25.55 million for the corresponding period in 2011. Actual volumes increased by approximately 10% at both the Container Terminal and the General Cargo Terminal.

Direct operating costs comprise of direct manpower costs, repairs and maintenance costs, energy costs, and marine costs. Direct operating costs have decreased by 6% against the corresponding period in 2011. In particular, energy costs have decreased by 6% over the corresponding period in 2011, reflecting the success of the energy-saving initiatives on electricity that the Port introduced in 2010. Repair and maintenance costs in H1 2012 are 36% lower in view of the costs incurred in 2011 towards refurbishment and painting of quay cranes at the Container Terminal. Operating depreciation in 2012 decreased by 10% due to the sale of 12 Rubber Tyred Gantry cranes (RTGs) in 2011 and seven RTGs in 2012.

Other operating costs mainly comprise of concession-related charges such as ground rent, fixed and variable royalty, and management fees, as well as terminal maintenance costs and insurance costs. Other operating costs decreased by 5% as compared to H1 2011.

General and administration costs have increased by 17% as compared to the corresponding period in 2011 due to increases in indirect manpower costs, provision for doubtful debts, and aged inventory. Specifically, allowances for cost of living that were initiated in Q2 of 2011 have contributed most to the increase.

Other income has increased by 3% against the same period last year mainly due to gains on the sale of seven RTGs in Q1 2012.

Net financing costs have been reduced by 20% over 2011 due to prepayments amounting to RO 11.15 million (USD 29 million) made between December 2010 and December 2011, as well as on account of the easing of an interest rate swap against a Tranche II loan in taken in Q1 2012.

Consolidated EBITDA is recorded at RO 9.481 million for the period, resulting in margins of 34%, against 29.9% in H1 2011. The increase is due to upticks in volume and productivity, in addition to prudent cost control measures and a continuous focus on performance management.

Outlook

The company expects container volume to grow by 10% over 2011 levels and for general cargo volume to register an overall growth of 4% in step with 2011 figures. The Port's management is on course towards improved productivity through its concentration on performance and job satisfaction, while the focus on taking out unwarranted costs without compromising on necessities is resulting in improving efficiencies across the board. In respect of General Cargo Terminal expansion contractor is in full process of mobilization.

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 this world-class port.

For Abdul Aziz Ali Shanfari

Chairman

Unaudited Consolidated Statement of Comprehensive Income

for the period ended 30 June 2012

	June-12 Rial '000	June-11 Rial '000
Revenue	**27,925**	25,551
Direct operating costs	**(12,722)**	(13,520)
Other operating expenses	**(4,067)**	(4,297)
Administration and general expenses	**(6,194)**	(5,277)
Other income	**254**	245
Profit from operations	**5,196**	2,702
Finance costs	**(1,341)**	(1,668)
Profit for the period before tax	**3,855**	1,034
Income Tax	**(615)**	(169)
Profit for the period	**3,240**	865
Other comprehensive income		
Revaluation of investments	**-**	-
Net movement in cash flow hedges	**72**	-
Other comprehensive income for the period, net of tax	**72**	-
Total comprehensive income for the period, net of tax	**3,312**	865
Profit attributable to:		
Equity holders of the parent	**3,240**	865
Non-controlling interests	**(0)**	-
Total comprehensive income attributable to:		
Equity holders of the parent	**3,312**	865
Non-controlling interests	**(0)**	-
Basic earnings per share (Rial)	**0.018**	0.005

Unaudited Consolidated Statement of Financial Position

as at 30 June 2012

	June-12 Rial '000	June-11 Rial '000
ASSETS		
Non-Current Assets		
Property and equipment	**92,904**	103,507
Intangible assets	**236**	249
Available-for-sale investments	**240**	269
Term Deposits	**4,000**	7,769
	97,380	111,794
Current Assets		
Inventories	**2,181**	2,547
Trade and other receivables	**14,544**	8,346
Cash and cash equivalents	**7,461**	4,143
Assets Classified as held for sale	**504**	-
	24,690	15,036
TOTAL ASSETS	**122,070**	126,830
EQUITY		
Share capital	**17,984**	17,984
Share premium	**2,949**	2,949
Legal reserve	**4,376**	4,140
Hedging (deficit)	**(3,770)**	(4,481)
Revaluation surplus	**40**	69
Retained earnings	**18,719**	16,916
Equity attributable to equity holders of the parent company	**40,298**	37,577
Non-controlling interests	**41**	42
TOTAL EQUITY	**40,339**	37,619
LIABILITIES		
Non-Current Liabilities		
Loans and borrowings	**52,132**	62,907
Deferred tax	**5,851**	4,949
Employees' end-of-service benefits	**1,554**	1,298
Derivative financial instruments	**2,701**	2,800
	62,238	71,954
Current Liabilities		
Trade and other payables	**13,551**	13,332
Loans and borrowings	**4,873**	2,244
Derivative financial instruments	**1,069**	1,681
	19,493	17,257
TOTAL LIABILITIES	**81,731**	89,211
TOTAL EQUITY AND LIABILITIES	**122,070**	126,830
Net assets per share (Rial)	**0.224**	0.209

PO Box 369, PC 211. Salalah, Sultanate of Oman. T + 968 23 220 000 F + 968 23 219 236

info@salalahport.com www.portofsalalah.com