

Directors' Report

Dear Shareholders,

On behalf of the Board of Directors, I have the pleasure in presenting to you the annual report of Salalah Port Services SAOG (also Port of Salalah) along with the audited accounts for the year ended 31 December 2012. Despite uncertain global economic circumstances, Salalah Port Services recorded historical new highs in volumes, both in Container Terminal (CT) as well as General Cargo terminal (GCT), as well as net profits in 2012.

What makes us even more proud is that these achievements come at the same time Port of Salalah has been focusing on improving its role in corporate responsibility and sound governance.

Corporate Social Responsibility (CSR)

This year the company has donated to community-driven projects of all types including, government, non-government, non-profit organizations and small businesses, as part of our commitment to improving people's lives in the area we do business in. The company has also begun measuring its contribution passed on through community volunteerism, preference in procurement from local suppliers, measuring environmental impact, and offering training and development beyond the boundaries of its employees. We strongly believe in a CSR program that is aligned with the pillars of sustainability and volunteerism. Port of Salalah made significant strides to improve the delivery and measure the impact of these pillars of CSR activity, and our improvement efforts have been recognized in 2012 both locally and internationally. This year we are proud to have won both the prestigious Containerization International Corporate Social Responsibility Award and Green Champion by Oman Green Awards. Going forward in 2013, we will publish a comprehensive sustainability report that highlights the value we deliver to the country and community through the company's CSR strategy.

Employee Development

Our people make this company successful and as a company we continue to ensure their development and their well being.

The safety of our employees, contractors, and others working at the port has remained a high importance for the company during 2012. Many improvements to the terminal's safety plan implemented in 2011 were further built on in 2012. Investments in new safety equipment, revised infrastructure, and technology implementation were driven in 2012 and will continue to be the plan of action in 2013. As a result of continued safety efforts, number of injuries has reduced by over 50%.

In particular, we see the investment in the training and development of our local staff is paying dividends. In 2012 for the first time in company history, we invested in a locally-focused Talent Development Program. This program ran over the course of five months and included expert lecturers from around the world. Further, we engaged hundreds of our staff members in developing tools in LEAN Six-Sigma to help them find and execute improvements in their daily work.

Among the various trainings delivered this year, focus has been centered on Communication and Customer Service. These courses had over 300 attendees that participated in a tailored curriculum that has supported better service to internal and external customers, helping employees work better together, thus improving our results, and improving our ability to relate to our customers, ensuring that our focus was first and foremost on delivering value.

Company Performance

The company's strategy to support the growth of our local customers by connecting to global trade has been delivering value to many local businesses, which can be seen in the growth in size and profits by our major local customers.

That we have been able to do this while improving the company's profitability is a reflection of an internal culture shift toward Process Excellence (PEX) using the LEAN/Six-Sigma tools learned during development.

Dividend history for the last 5 years

	2007	2008	2009	2010	2011
Dividend %	12%	Nil	10%	25%	15%
Cash outlay (RO '000)	2,158	Nil	1,798	4,495	2,697

The GCT has handled 7.2 million tonnes during 2012 – a growth in excess of 11% over 2011. The general cargo business has been growing rapidly and the main factors driving the growth are commodities such as limestone, methanol and cement exported from Oman. During the year, the Ministry of Transport and Communication has awarded the tender for the expansion of the general cargo berths and the liquid jetty. The project work is progressing well.

This year the CT has handled 3.6 million TEUs – a growth of 14% over 2011. Through improved service levels, we have retained all our major customers in 2012, while a major customer's share of business increased by 39% compared to 2011. New customers are increasingly finding value in Port of Salalah, which we are building our strategy upon for the company's growth in 2013.

Financial Overview

The consolidated revenues were recorded at RO 57.5 million – a growth of 15% over the previous year. The consolidated net profit was recorded at RO 7.08 million – a growth of 200% compared to 2011. The company will continue its efforts in taking costs out and driving performance which enables sustained efficiencies across the board.

During 2012, Port of Salalah has distributed 15% annual dividend pertaining to year 2011. This year, the Board of Directors is pleased to recommend the distribution of dividends of 25% on the paid-up equity share capital of the company. This works out to 25 baizas per share resulting in a total cash disbursement of RO 4,495,000.

Future Outlook

The outlook for the company is positive. The management is pursuing strategic initiatives in creating a "Salalah Hub" that will balance commercial risk and reward, as well as improve the opportunities for local employment, through greater success in the Salalah Free Zone. We are competing in a global economy, however, and we remain cautious about increasing costs in the country compared to other regional players. We are addressing part of these concerns by the shift towards a PEX culture and upgraded personal performance evaluation processes. Continued success in the Port and Free Zone will have the best chance for lasting impact on sustainable job creation and improved disposable income for local staff.

Further into the future, the Government of Oman has announced the inclusion of the Port of Salalah in the first phase of the design of Oman's portion of the strategic GCC Railway Network. Once this is complete, Oman and the Port of Salalah will become an even greater economic presence in the region. The Port of Salalah is grateful for its government partnership and efforts toward improving our competitiveness and efficiency.

Conclusion

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.

On behalf of the company I also thank our customers, investors and visionary members of the government ministries we work together with daily.

Lastly, but certainly not least, I place on record our appreciation for the contributions made by our employees at all levels in playing the massive role in achieving the level of performance in 2012. The company's consistent growth is only possible by their hard work, solidarity, cooperation and support.

On behalf of the Board of Directors,



Abdul Aziz Bin Ali Shanfari
Chairman of Board of Directors,
Salalah Port Services Co. SAOG
February 11, 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 Dec, 2012

	2012 RO '000	2011 RO '000
Revenue	57,540	49,822
Direct operating costs	(27,203)	(27,336)
Other operating expenses	(8,066)	(6,319)
Administration and general expenses	(12,008)	(9,752)
Other income	232	61
Profit from operations	10,495	6,476
Finance costs	(2,557)	(3,782)
Profit for the year before tax	7,938	2,694
Income tax	(855)	(333)
Profit for the year	7,083	2,361
Other comprehensive income		
Revaluation of investments	(14)	(29)
Net movement in cash flow hedges	261	47
Other comprehensive income for the year, net of tax	247	18
Total comprehensive income for the year, net of tax	7,330	2,379
Profit attributable to:		
Equity holders of the parent company	7,085	2,362
Non-controlling interests	(2)	(1)
Total comprehensive income attributable to:		
Equity holders of the parent company	7,332	2,380
Non-controlling interests	(2)	(1)
Basic earnings per share (RO)	0.039	0.013

Consolidated Statement of Financial Position

as at 31 Dec, 2012

	2012 RO '000	2011 RO '000
ASSETS		
Non-Current Assets		
Property and equipment	89,842	95,900
Intangible assets	228	243
Available-for-sale investments	226	240
Term deposits	4,000	4,000
	94,296	100,383
Current Assets		
Inventories	1,902	2,486
Trade and other receivables	14,762	10,628
Cash and cash equivalents	12,279	5,108
Assets Classified as held for sale	-	959
	28,943	19,181
TOTAL ASSETS	123,239	119,564
EQUITY		
Share capital	17,984	17,984
Share premium	2,949	2,949
Legal reserve	5,084	4,376
Hedging deficit	(3,581)	(3,842)
Fair value reserve	26	40
Retained earnings	21,856	18,177
Equity attributable to equity holders of the parent company	44,318	39,684
Non-controlling interests	39	41
TOTAL EQUITY	44,357	39,725
LIABILITIES		
Non-Current Liabilities		
Loans and borrowings	47,574	54,565
Deferred tax	5,881	5,113
Employees' end of service benefits	1,592	1,400
Derivative financial instruments	2,464	2,830
	57,511	63,908
Current Liabilities		
Trade and other payables	15,211	9,454
Loans and borrowings	5,043	4,873
Derivative financial instruments	1,117	1,604
	21,371	15,931
TOTAL LIABILITIES	78,882	79,839
TOTAL EQUITY AND LIABILITIES	123,239	119,564
Net assets per share (RO)	0.246	0.221