

SALALAH PORT SERVICES COMPANY SAOG

Financial statements

31 December 2006

Registered office and principal place of business:

PO Box 369, Postal Code 211

Salalah

Sultanate of Oman

SALALAH PORT SERVICES COMPANY SAOG

Financial statements

31 December 2006

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF SALALAH PORT SERVICES SAOG

Report on the financial statements

We have audited the accompanying financial statements of Salalah Port Services SAOG ("the Company") set out on pages 2 to 28, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Board of Directors responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessments of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Salalah Port Services SAOG as at 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

In our opinion, the financial statements of Salalah Port Services SAOG as of and for the year ended 31 December 2006, in all material respects:

- Have been properly prepared in accordance with the disclosure requirements of the Capital Market Authority; and
- Comply with the Commercial Companies Law of 1974, as amended.

SALALAH PORT SERVICES COMPANY SAOG

Income statement

for the year ended 31 December

2005 US \$'000	2006 US \$'000		Notes	2006 RO'000	2005 RO'000
69,515	72,587	Revenue	28	27,918	26,737
(36,131)	(39,905)	Direct operating costs	5	(15,348)	(13,896)
(10,454)	(9,056)	Other operating expenses	6	(3,482)	(4,022)
(9,374)	(9,785)	Administration and general expenses	7	(3,763)	(3,607)
595	509	Other income	8	196	228
14,151	14,350	Profit from operations		5,521	5,440
(2,121)	(2,072)	Net financing costs	9	(797)	(815)
12,030	12,278	Net profit for the year before tax		4,724	4,625
(1,379)	(1,481)	Deferred tax	25	(570)	(530)
10,651	10,797	Net profit for the year		4,154	4,095
0.59	0.60	Basic earnings per share (US\$ / RO)	19	0.231	0.228

The notes on pages 6 to 28 form part of these financial statements.

The report of the Auditors is set forth on page 1.

SALALAH PORT SERVICES COMPANY SAOG

Balance sheet

as at 31 December

2005 US \$'000	2006 US \$'000	Note	2006 RO'000	2005 RO'000
ASSETS				
108,046	130,901	11	50,348	41,556
857	819	12	314	328
260	260	13	100	100
432	370	26	141	166
109,595	132,350		50,903	42,150
ASSETS				
4,006	4,257	14	1,638	1,541
9,859	9,857	15	3,792	3,793
4,396	14,262	16	5,486	1,691
19,389	14,638	17	5,630	7,457
286	801	26	309	110
37,936	43,815		16,855	14,592
147,531	176,165		67,758	56,742
EQUITY				
46,758	46,758	18	17,984	17,984
7,666	7,666	18	2,949	2,949
4,657	5,737	18	2,206	1,791
718	1,171	26	450	276
18,952	23,994		9,229	7,288
78,751	85,326		32,818	30,288
LIABILITIES				
39,895	60,679	22	23,339	15,344
4,400	5,881	25	2,262	1,692
1,193	1,417	23	545	459
45,488	67,977		26,146	17,495
14,176	13,658	24	5,254	5,453
9,116	9,204	22	3,540	3,506
23,292	22,862		8,794	8,959
68,780	90,839		34,940	26,454
147,531	176,165		67,758	56,742
4.38	4.74	21	1.825	1.684

The notes on pages 6 to 28 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 20 February 2007 and were signed on its behalf by:

Chairman

Chief Executive Officer

Chief Financial Officer

The report of the Auditors is set forth on page 1.

SALALAH PORT SERVICES COMPANY SAOG

Statement of changes in equity

for the year ended 31 December

	Share capital	Share premium	Legal reserve	Hedging surplus /(deficit)	Retained earnings	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
1 January 2005	17,984	2,949	1,381	(47)	5,401	27,668
Dividend paid	-	-	-	-	(1,798)	(1,798)
Net profit for the year	-	-	-	-	4,095	4,095
Fair value adjustment	-	-	-	323	-	323
Transfer	-	-	410	-	(410)	-
31 December 2005	17,984	2,949	1,791	276	7,288	30,288
Dividend paid	-	-	-	-	(1,798)	(1,798)
Net profit for the year	-	-	-	-	4,154	4,154
Fair value adjustment	-	-	-	174	-	174
Transfer	-	-	415	-	(415)	-
31 December 2006	17,984	2,949	2,206	450	9,229	32,818

	Share Capital	Share Premium	Legal reserve	Hedging Surplus /(deficit)	Retained earnings	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
1 January 2005	46,758	7,666	3,592	(122)	14,041	71,935
Dividend paid for 2004	-	-	-	-	(4,675)	(4,675)
Net profit for the year	-	-	-	-	10,651	10,651
Fair value adjustment	-	-	-	840	-	840
Transfer	-	-	1,065	-	(1,065)	-
31 December 2005	46,758	7,666	4,657	718	18,952	78,751
Dividend paid for 2005	-	-	-	-	(4,675)	(4,675)
Net profit for the year	-	-	-	-	10,797	10,797
Fair value adjustment	-	-	-	453	-	453
Transfer	-	-	1,080	-	(1,080)	-
31 December 2006	46,758	7,666	5,737	1,171	23,994	85,326

The notes on pages 6 to 28 form part of these financial statements.

The report of the Auditors is set forth on page 1.

SALALAH PORT SERVICES COMPANY SAOG

Cash flow statement

for the year ended 31 December

2005 US \$'000	2006 US \$'000		2006 RO'000	2005 RO'000
		Cash flow from operating activities		
10,651	10,797	Net profit for the year	4,154	4,095
		Adjustments for:		
8,768	8,919	Depreciation and amortisation	3,429	3,372
1,379	1,481	Deferred tax	570	530
300	343	Accrual for employees' end of service benefits	132	116
(19)	(10)	Gain on sale of equipment	(4)	(7)
(447)	(806)	Interest income	(310)	(172)
2,425	2,768	Interest expense	1,065	932
<u>23,057</u>	<u>23,492</u>		<u>9,036</u>	<u>8,866</u>
(976)	(251)	Change in inventories	(97)	(376)
(2,194)	2	Change in receivables	1	(846)
3,875	(518)	Change in payables	(199)	1,492
(86)	(119)	Employees' end of service benefits paid	(46)	(33)
<u>23,676</u>	<u>22,606</u>	Net cash from operating activities	<u>8,695</u>	<u>9,103</u>
		Cash flow from investing activities		
(19,425)	(31,736)	Acquisition of equipment	(12,207)	(7,469)
19	10	Proceeds from sale of equipment	4	7
4,780	(3,630)	(Increase)/ decrease in bank term deposits	(1,394)	1,839
(209)	(1,313)	(Increase) in other term deposits	(503)	(79)
447	806	Interest received	310	172
<u>(14,388)</u>	<u>(35,863)</u>	Net cash used in investing activities	<u>(13,790)</u>	<u>(5,530)</u>
		Cash flow from financing activities		
12,000	30,000	Proceeds from term loan	11,535	4,614
(9,033)	(9,116)	Repayment of term loans	(3,506)	(3,472)
(4,675)	(4,675)	Dividend paid	(1,798)	(1,798)
(2,425)	(2,768)	Interest paid	(1,065)	(932)
<u>(4,133)</u>	<u>13,441</u>	Net cash used in financing activities	<u>5,166</u>	<u>(1,588)</u>
5,155	184	Net increase in cash and cash equivalents	71	1,985
8,923	14,078	Cash and cash equivalents at 1 January	5,415	3,430
<u>14,078</u>	<u>14,262</u>	Cash and cash equivalents at 31 December (note 16)	<u>5,486</u>	<u>5,415</u>

The notes on pages 6 to 28 form part of these financial statements.

The report of the Auditors is set forth on page 1.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

1 Legal status and principal activities

Salalah Port Services Company SAOG (“the Company”) is registered as a joint stock company in the Sultanate of Oman under the Commercial Companies Law of Oman. The Company is primarily engaged in leasing, equipping, operating and managing Container Terminal and General Cargo Terminal facilities in Salalah, Sultanate of Oman.

2 Basis of Preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”), the disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

(b) Basis of measurement and Presentation currency

These financial statements are presented in Rials Omani (“RO”) and United States Dollars (“US\$”) rounded off to the nearest thousand. The financial statements have been prepared under the historical cost basis modified for derivative financial instruments and investments available for sale, which are stated at fair value. Exchange rate considered for conversion is RO 1 = USD 2.6.

(c) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 26 - Derivative financial instruments

Note 25 – Deferred tax

3 Significant agreements

The Company has entered into the following significant agreements:

- (i) Concession agreement with the Government of the Sultanate of Oman to lease, equip, operate and manage Salalah Port Container Terminal facilities (“Container Terminal Facilities Agreement”) for a period of thirty years commencing from 29 November 1998 (“Concession Period”). In consideration for granting the concessions, the Company pays royalty fee to the Government of Sultanate of Oman and is calculated as follows:
 - a fixed royalty fee of USD 255,814 per annum, increasing at the rate of 3% per annum; and
 - a variable royalty fee calculated in accordance with the terms set out in the Container Terminal Facilities Agreement.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

3 Significant agreements (continued)

- (ii) Management agreement for Container Terminal with AP Moller Terminals Co. LLC with the responsibility for day-to-day management of the Company and operations of the port on behalf of the Company. This agreement is effective for the Concession Period. In consideration of the services provided by the manager the Company pays a fee, which varies dependant on the operating revenue of the Company. (2005: Volumes)
- (iii) Concession agreement with the Government of the Sultanate of Oman to equip, operate, market and manage Salalah Port Conventional Terminal facilities (“General Cargo Terminal Facilities Agreement”). The agreement was executed on 11 September 2000, with retrospective effect from 1 October 1998. The agreement is effective for a period co-terminus with the Container Terminal Facilities Agreement. In consideration for granting the concessions, the Company pays royalty fee to the Government of Sultanate of Oman as follows:
- a fixed royalty fee of RO 49,900 per annum, payable from 2006 onwards and increasing at the rate of 3% per annum; and
 - a variable royalty fee calculated in accordance with the terms set out in the General Cargo Terminal Facilities Agreement.
- (iv) Management agreement for General Cargo Terminal with AP Moller Terminals Co. LLC with the responsibility for day-to-day management of the Company and operations of the port excluding Container Terminal facilities on behalf of the Company. The agreement is effective for the Concession Period. In consideration of the services provided by the manager the Company pays a fee, which varies dependant on the volumes handled by the Company.

4 Significant accounting policies

The accounting policies set out below have been applied consistently by the Company and are consistent with those used in the previous year.

(a) Revenue

Revenue comprises income earned from services rendered in connection with the facilities provided at Container and General Cargo Terminals, and is recognised when earned. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

(b) Net financing expense

Net financing expense comprises interest payable on borrowings and interest receivable on bank deposits.

Interest income is recognised in the income statement as it accrues. Interest expense is recognised in the income statement as incurred.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

4 Significant accounting policies

(c) *Employee benefits*

Defined contribution plan

Obligations for contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognized as an expense in the income statement as incurred.

The Company's obligation in respect of non-Omani terminal benefits, under defined contribution retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate used reflects current market assessments of the time value of money.

(d) *Foreign currencies*

Transactions in foreign currencies are translated to Rials Omani at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rials Omani at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined.

(e) *Derivative financial instruments and hedging*

The Company uses derivative financial instruments to hedge its exposure to certain portion of its interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are stated at their fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(Forming part of the financial statements)

4 Significant accounting policies (continued)

(f) Intangible asset

Expenditure incurred on initial studies for development of Salalah Port have been capitalised by the Company. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses [refer accounting policy (1)]. Amortisation of development expenditure is charged to income statement on a straight line basis over the Concession Period.

(g) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost includes any other cost directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located,

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of an item if it is probable that future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of the property and equipment. Assets under construction are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

	Years
Leasehold improvements	3 – 5
Quay gantry cranes	6 – 25
Rubber tyre gantry cranes	15
Tractors and trailers	10 – 15
Forklifts and reach stackers	3 – 5
Marine equipment	25 – 30
Motor vehicles	3 – 5
Computer equipment and software	1 – 5
Furniture, fixtures and equipment	3 – 5

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

4 Significant accounting policies (continued)

(h) Investments

Investments are classified as available for sale and are stated at fair value, with any resultant gain or loss recognised in equity. The fair value of the investments available for sale is their quoted bid price at the balance sheet date. Available for sale investments are recognised /de-recognised by the Company on the date it commits to purchase/sell the investments.

(i) Receivables

Receivables are stated at their cost less impairment losses [accounting policy (l)].

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net Realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, balances with banks and short-term deposits with an original maturity of three months or less.

(l) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the income statement.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

4 Significant accounting policies *(continued)*

(l) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(n) Determination of Directors Remuneration

The Annual General Meeting determines the total remuneration of the Chairman, Deputy Chairman and other members of the Board of Directors in respect of Board Meetings, positions held and sub-committee duties, not exceeding three percent (3%) of the net annual profits after deduction of the legal reserve, the special reserve (if any), and payment of dividends of not less than five percent (5%) to all shareholders. Directors' remuneration is recognized in the income statement.

(o) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

4 Significant accounting policies (continued)

(p) Interest bearing borrowings

Interest bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowings on an effective interest rate basis.

(q) Operating lease payments

Payments made under operating leases are recognised in the income statement based on contractual terms agreed with the Government.

(r) Income tax

Income tax on the results for the year comprises deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) New standards and interpretation not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements:

- *IFRS 7 Financial Instruments: Disclosures and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to the Company's financial instruments and share capital.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(Forming part of the financial statements)

4 Significant accounting policies *(continued)*

(s) New standards and interpretation not yet effective (continued)

- *IFRIC 7 Applying the Restoration Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.
- *IFRIC 8 Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Company's 2007 financial statements, with retrospective application required. The Company has determined that the interpretation is not expected to have any impact on the financial statements.
- *IFRIC 9 reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.
- *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 is not expected to have any impact on the financial statements.

(t) Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

5 Direct operating costs

2005 US \$'000	2006 US \$'000		2006 RO'000	2005 RO'000
18,412	20,530	Staff costs	7,896	7,082
8,357	8,440	Depreciation	3,245	3,213
3,722	4,810	Repair and maintenance	1,850	1,431
3,665	4,264	Power and fuel	1,640	1,409
1,975	1,861	Other expenses	717	761
<u>36,131</u>	<u>39,905</u>		<u>15,348</u>	<u>13,896</u>

6 Other operating expenses

3,135	2,918	Ground rent and royalty	1,122	1,206
4,806	3,468	Management fees	1,334	1,848
327	369	Depreciation	142	126
2,186	2,301	Others	884	842
<u>10,454</u>	<u>9,056</u>		<u>3,482</u>	<u>4,022</u>

7 Administration and general expenses

5,457	5,885	Staff costs	2,263	2,099
46	72	Depreciation	28	18
564	478	Sales and marketing	184	217
437	577	Systems and communications	222	168
1,261	891	Legal and professional fees	343	485
1,609	1,882	Others	723	620
<u>9,374</u>	<u>9,785</u>		<u>3,763</u>	<u>3,607</u>

8 Other income

182	-	Professional services fee	-	70
413	509	Others	196	158
<u>595</u>	<u>509</u>		<u>196</u>	<u>228</u>

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

9 Net financing costs

2005 US \$'000	2006 US \$'000		2006 RO'000	2005 RO'000
2,425	2,768	Term loan interest	1,065	932
143	110	Other financing charges	42	55
<u>2,568</u>	<u>2,878</u>	Total financing cost	<u>1,107</u>	<u>987</u>
(447)	(806)	Interest income	(310)	(172)
<u>2,121</u>	<u>2,072</u>		<u>797</u>	<u>815</u>

10 Salaries and related costs

Salaries and related costs included in notes 5 and 7 are as follows:

19,216	21,128	Wages and salaries	8,126	7,391
3,649	4,059	Other benefits	1,561	1,403
300	343	Increase in liability for un-funded defined benefit retirement plan	132	116
704	885	Contributions to defined contribution retirement plan	340	271
<u>23,869</u>	<u>26,415</u>		<u>10,159</u>	<u>9,181</u>

The number of employees at 31 December 2006 was 1,442 (2005: 1,491).

11 Property and equipment

Details of property and equipment are set out in Schedule I on pages 27 and 28.

Buildings are situated on land-leased upto the year 2028, from the Ministry of Transport and Communications. Annual lease rental is RO 286,140 and increases based on contractual terms agreed with the Government .

The depreciation charge has been allocated in the income statement as follows:

8,357	8,440	Direct operating costs	3,245	3,213
327	369	Other operating expenses	142	126
46	72	Administration expenses	28	18
<u>8,730</u>	<u>8,881</u>		<u>3,415</u>	<u>3,357</u>

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Notes

(forming part of the financial statements)

12 Intangible assets

2005 US \$'000	2006 US \$'000		2006 RO'000	2005 RO'000
		Cost		
1,105	1,105	1 January and 31 December	425	425
		Cumulative amortisation		
(210)	(248)	1 January	(97)	(82)
(38)	(38)	Additions	(14)	(15)
(248)	(286)	31 December	(111)	(97)
		Carrying amount		
895	857	1 January	328	343
(38)	(38)	Additions	(14)	(15)
857	819	31 December	314	328

13 Investments

The company has invested RO 100,000 for the purchase of 100,000 shares of Dhofar University SAOG.

14 Inventories

4,811	5,296	Spares and consumables	2,037	1,850
(805)	(1,039)	Less: Provision for slow moving inventories	(399)	(309)
4,006	4,257		1,638	1,541

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Notes

(forming part of the financial statements)

15 Trade and other receivables

2005 US \$'000	2006 US \$'000		2006 RO'000	2005 RO'000
2,260	1,175	Amounts due from related parties	452	870
5,283	6,185	Amounts due from the Government of Sultanate of Oman	2,379	2,032
1,721	1,864	Trade receivables	717	662
421	287	Prepaid expenses	110	162
174	346	Other receivables	134	67
<u>9,859</u>	<u>9,857</u>		<u>3,792</u>	<u>3,793</u>

16 Cash and cash equivalents

442	639	Cash and bank balances	246	170
3,954	13,623	Call deposit accounts	5,240	1,521
<u>4,396</u>	<u>14,262</u>		<u>5,486</u>	<u>1,691</u>

During 2006, the call deposit accounts earned interest at the rates ranging between 0.1% to 1.5% per annum (2005: 0.1% to 1.5% per annum).

17 Term deposits

9,682	-	Bank deposits with a maturity of three months or less	-	3,724
3,500	7,124	Bank deposits with a maturity of greater than three months	2,740	1,346
6,207	7,514	Debt service deposit	2,890	2,387
<u>19,389</u>	<u>14,638</u>		<u>5,630</u>	<u>7,457</u>

Bank deposits carry effective annual interest at the rates ranging between 3% and 5.35% (2005: 3% and 4.5%) and include fixed deposits of RO 2,739,968 (2005 - RO 5,069,941) with commercial banks in Oman, denominated in US Dollars;

Under the terms of the debt financing agreement, the Company is required to maintain a debt service deposit equal to its next six months debt repayments for the period until the final installment of the term loan. The deposits are in USDollars with commercial banks in Oman carrying effective annual interest rates ranging between 1% and 5.15% (2005: 1% and 4.50%).

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

18 Share capital

	Authorised		Issued and fully paid	
	2006	2005	2006	2005
Shares of RO 1 each (RO '000)	20,000	20,000	17,984	17,984
Shares of RO 1 each (US\$ '000)	52,000	52,000	46,758	46,758

Share premium

Share premium of RO 2,948,569 represents premium on shares issued during year 2000 and transferred to share premium account during year 2001.

Shareholders of the Company who own 10% or more of the Company's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	2006		2005	
	No. of shares	%	No. of shares	%
A.P. Moller Finance S.A.	5,418,000	30	5,418,000	30
Government of the Sultanate of Oman (represented by Ministry of Finance)	3,612,000	20	3,612,000	20
Dhofar International Development and Investment Company SAOG	1,958,800	11	1,958,800	11
Ministry of Defence – Pension Fund	1,798,374	10	1,798,374	10

Legal reserve

The Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to one-third of the Company's share capital. The reserve is not available for distribution.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

19 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year as follows:

2005	2006		2006	2005
10,651	10,797	Net profit for the year (US\$'000 / RO '000)	4,154	4,095
17,984	17,984	Weighted average number of ordinary shares outstanding during the year ('000)	17,984	17,984
0.59	0.60	Basic earnings per share (US\$ / RO)	0.231	0.228

20 Dividend

During the year, dividend of RO 0.100 per share totalling RO 1,798,374 relating to 2005 were declared and paid.

The Board of Directors has proposed a cash dividend of RO ___ per share totalling RO _____ which is subject to the approval of the shareholders at the Annual General Meeting.

21 Net assets per share

Net assets per share are calculated by dividing the net assets at the year end by the number of shares outstanding as follows:

2005	2006		2006	2005
78,751	85,326	Net assets (US\$ '000 / RO '000)	32,818	30,288
17,984	17,984	Weighted average number of shares outstanding at 31 December ('000)	17,984	17,984
4.38	4.74	Net assets per share (US\$ / RO)	1.825	1.684

22 Term loan

The Company has a syndicated long-term loan facility, denominated in US Dollars, from financial institutions in the aggregate amount of approximately RO 42.3 million (USD 110 million). The facilities, comprises two Tranches of RO 21.2 million (USD 55 million) each. During the year 2005, the drawdown was RO 4.6 million (USD 12 million) and in 2006 RO 11.5 million (USD 30 million) from Tranche 2 of the loan facility. The remaining amount of Tranche 2 facility is available to the Company till 4 May 2008. The Company has already availed Tranche 1 facility in the amount of RO 21.2 million (USD 55 million).

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Notes

(forming part of the financial statements)

22 Term Loans (continued)

The secured lenders for the Company are Bank Muscat, Gulf International Bank B.S.C & Bank Dhofar. Bank Muscat has been appointed as security agents and trustees for the secured lenders. They are also the Facility Agent for administration and monitoring of the overall loan facilities.

The Tranche 1 term loan is repayable in 12 instalments of six-monthly intervals commencing from 30 June 2005. The Company has capped the rate of interest through an interest rate swap agreement for 75% of its loan facility at a maximum interest rate of 3.7% per annum (refer note 26).

The Tranche 2 term loan is repayable in 14 instalments of six-monthly intervals commencing from 30 June 2008. The Company has fixed the rate of interest through an interest rate swap agreement for 75% of its loan facility at a maximum interest rate of 4.7% per annum (refer note 26).

At 31 December 2006, the outstanding balances for the two tranches are as follows:

	<u>Total</u>	<u>Payable within one year</u>	<u>Payable between 1 and 2 years</u>	<u>Payable between 2 and 5 years</u>	<u>Payable after 5 years</u>
RO'000					
Tranche 1	10,730	3,540	3,578	3,612	-
Tranche 2	16,149	-	317	6,522	9,310
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total RO'000	26,879	3,540	3,895	10,134	9,310
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
USD'000					
Tranche 1	27,883	9,204	9,302	9,377	-
Tranche 2	42,000	-	824	16,957	24,219
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total USD '000	69,883	9,204	10,126	26,334	24,219
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The loan agreement contains certain restrictive covenants, which include, amongst others, restrictions over debt service, net worth limit, debt equity ratios, current ratio and security cover certain restrictions on the pattern of shareholding, payment of dividends, disposal of property, and equipment and creation of additional security on assets under charge.

The loan facilities bear an effective interest rate of 5.69% (2005: 4.98%) incorporating the effect of hedging instrument.

The facilities are secured by comprehensive first legal and commercial mortgages on all the assets of the Company.

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

23 Employees end of service benefits

Movements in the liability recognised in the balance sheet are as follows:

2005 US \$'000	2006 US \$'000		2006 RO'000	2005 RO'000
979	1,193	1 January	459	376
300	343	Accruals during the year	132	116
(86)	(119)	End of service benefit paid	(46)	(33)
<u>1,193</u>	<u>1,417</u>	31 December	<u>545</u>	<u>459</u>

24 Trade and other payables

2,640	2,377	Trade payables	915	1,016
4,839	3,545	Amounts due to related parties	1,363	1,862
6,697	7,736	Accrued expenses and other liabilities	2,976	2,575
<u>14,176</u>	<u>13,658</u>		<u>5,254</u>	<u>5,453</u>

25 Taxation

In accordance with Ministerial decision 73/2000 dated 28 June 2000, the Company had obtained a tax exemption for a period of 5 years commencing 29 November 1998.

The Company has been granted further tax exemption in accordance with Ministerial decision 40/2005 dated 19 June 2005 for a period of further five years commencing 1 November 2003.

Deferred tax liability represents the amount of income tax payable in future periods in respect of taxable temporary / timing differences between accounting and tax depreciation. The provision for deferred tax liability reserves the impact of incidence of tax in the future periods when the carrying amount of asset would be recovered in the form of revenues. There by matching the effective rate of tax to the actual tax rate.

The following provision as of 31 December 2006 to equalise the impact of taxes over the revenue earning life of the asset:

7,969	8,389	Tax depreciation	3,227	3,065
(3,569)	(2,508)	Tax loss at 31 December	(965)	(1,373)
<u>4,400</u>	<u>5,881</u>		<u>2,262</u>	<u>1,692</u>

The assessments for the years 2001 to 2005 have not been finalised with the Department of Taxation Affairs, Ministry of Finance.

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Notes

(forming part of the financial statements)

26 Derivative financial instruments and hedging deficit

The Term loan facilities of the Company bear interest at USD LIBOR plus applicable margins. In accordance with the Term Loan Agreement, the Company has fixed the rates of interest applicable to the different Tranches through Interest Rate Swap agreements (“IRS”).

At 31 December 2006, the USD LIBOR was approximately 5.36% per annum, whereas the Company had fixed interest on its long term borrowings at 3.7% on Tranche 1 and 4.7% on Tranche 2.

Based on the interest rates gap, over the life of the respective IRS, the indicative gains were assessed at RO 450,480 (USD 1,171,248) by the counter parties to IRS. In case the Company terminates the IRS at 31 December 2006, it may result in a gain to the extent of RO 450,480 (USD 1,171,248). In order to comply with International Accounting Standard 39 “Financial Instruments: Recognition and Measurement” fair value of the hedge instruments’ indicative gains in the amount of RO 450,480 (USD 1,171,248) has been recorded within the equity of the Company under “Hedging surplus” and a similar amount is recorded under assets (2005: assets)

27 Related party transaction

The Company has entered into transactions with entities over which certain Directors may be able to exercise significant influence. In the normal course of business, the Company provides and avails services from related parties on commercial terms and at arms length. The terms of providing and receiving such services are comparable with those that could be obtained from third parties. The volumes of significant related party transactions during the year and with parties with a shareholding of 10% or more in the Company and / or related to Directors, were as follows:

2005 US \$'000	2006 US \$'000		2006 RO'000	2005 RO'000
		<i>Revenue</i>		
		Maersk Shipping Services Co. LLC		
53,178	56,347	(Agent of Maersk line)	21,672	20,453
23	21	Others (individually not material)	8	9
<u>53,201</u>	<u>56,368</u>		<u>21,680</u>	<u>20,462</u>
		<i>Purchases and service rendered</i>		
		AP Moller Terminals and Co. LLC		
354	208	(Agent of Maersk line)	80	136
520	504	Cory Towage LLC	194	200
866	655	Maersk Shipping Services Co. LLC	252	333
62	47	Others (individually not material)	18	24
<u>1,802</u>	<u>1,414</u>		<u>544</u>	<u>693</u>
		Management fees to A P Moller		
4,806	3,468	Terminals and Company LLC	1,334	1,848
<u>78</u>	<u>78</u>	Directors' remuneration	<u>30</u>	<u>30</u>
<u>60</u>	<u>60</u>	Directors' sitting fees	<u>23</u>	<u>23</u>

SALALAH PORT SERVICES COMPANY SAOG

Notes

(forming part of the financial statements)

28 Segmental reporting

Operating Segment

For management purposes the Company is organised into two major operating divisions – Container Terminal and General Cargo Terminal. The Container Terminal Division is engaged in leasing, equipping, operating and managing a Container Terminal. The General Cargo Terminal Division is engaged in providing stevedoring and other cargo related services to vessel and cargo operators. All activities are undertaken in the Sultanate of Oman. These Divisions are the basis on which the Company reports its primary segment information, as follows:

	Container Terminal		General Cargo Terminal		Total	
	2006 RO '000	2005 RO '000	2006 RO '000	2005 RO '000	2006 RO '000	2005 RO '000
Revenue	24,785	24,219	3,133	2,518	27,918	26,737
Direct operating cost	(14,106)	(12,948)	(1,242)	(948)	(15,348)	(13,896)
Common costs					(7,049)	(7,401)
Profit from operations					5,521	5,440
Finance costs (net)					(797)	(815)
Net profit for the year before tax					4,724	4,625
Deferred tax					(570)	(530)
Net profit for the year					4,154	4,095

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Notes

(forming part of the financial statements)

28 Segmental reporting (continued)

	Container Terminal		General Cargo Terminal		Total	
	2006 RO '000	2005 RO '000	2006 RO '000	2005 RO '000	2006 RO '000	2005 RO '000
Other Information						
Segment total						
Assets	66,434	55,351	3,091	2,328	69,525	57,679
Inter division balances eliminated					(1,767)	(937)
Total assets					67,758	56,742
Segment total liabilities & equity	66,434	55,351	3,091	2,328	69,525	57,679
Inter division balances eliminated					(1,767)	(937)
Total liabilities & equity					67,758	56,742
	Container terminal		General cargo terminal		Total	
	2006 US\$ '000	2005 US\$ '000	2006 US\$ '000	2005 US\$ '000	2006 US\$ '000	2005 US\$ '000
Revenue	64,441	62,968	8,146	6,547	72,587	69,515
Direct operating cost	(36,675)	(33,664)	(3,230)	(2,467)	(39,905)	(36,131)
Common costs					(18,332)	(19,233)
Profit from operations					14,350	14,151
Finance costs (net)					(2,072)	(2,121)
Net profit for the year before tax					12,278	12,030
Deferred tax					(1,481)	(1,379)
Net profit for the year					10,797	10,651

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Notes

(forming part of the financial statements)

28 Segmental reporting (continued)

	Container Terminal		General Cargo Terminal		Total	
	2006 US\$ '000	2005 US\$ '000	2006 US\$ '000	2005 US\$ '000	2006 US\$ '000	2005 US\$ '000
Other Information						
Segment total						
Assets	172,726	143,915	8,037	6,053	180,763	149,968
Inter division balances eliminated					(4,595)	(2,437)
Total assets					176,168	147,531
Segment total liabilities & equity	172,726	143,915	8,037	6,053	180,763	149,968
Inter division balances eliminated					(4,595)	(2,437)
Total liabilities & equity					176,168	147,531

29 Commitment and contingencies

2005 US \$'000	2006 US \$'000		2006 RO'000	2005 RO'000
31,554	12,264	Capital expenditure commitments	4,717	12,136
-	17	Bank guarantees	7	-

Operating lease commitments

The Company has entered into a lease agreement with the Government of the Sultanate of Oman in November 1998, which grants a lease of the land and infrastructure required for the Container Terminal facilities to the Company, for a term consistent with its thirty year Concession Period. Future lease payment commitments are as follows:

915	941		362	352
3,942	4,061	Not later than one year	1,562	1,516
24,835	23,775	Between one and five years	9,144	9,552
		After five years		
29,692	28,777	Total lease commitment	11,068	11,420

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Notes

(forming part of the financial statements)

30 Financial instruments

Exposure to interest rate, credit, liquidity, currency and fair value risks arises in the normal course of the Company's business.

Interest rate risk

The Company adopts a policy of ensuring that at least 75% of its exposure to changes in interest rates on long-term loans is on a fixed rate basis. Interest rate swap, denominated in US Dollars, has been entered into to achieve this purpose. While this is subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

However, the Company is also exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits and 25% of the term loans). The management monitors the interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Credit risk

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

The Company provides services to number of customers in Oman. Six top customers account for 86% of outstanding accounts receivable at 31 December 2006 (2005 – six top customers accounted for 86 %).

Liquidity risk

The Company limits its liquidity risk by ensuring bank facilities is available. The Company's terms of service require amounts to be paid within 30 to 60 days of the date of sale. Trade payables are normally settled within 30 to 90 days of the date of purchase.

Currency risk

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of financial assets and liabilities. The Company has not hedged its currency exposure, the majority of which is denominated in US Dollars as a significant part of its current and expected revenue flows will be in US Dollars.

31 Fair values of financial instruments

Financial instruments comprise financial assets and liabilities.

Financial assets consist of cash and bank balances, term deposits and receivables. Financial liabilities consist of payables, term loans and accrued expenses. The fair values of the financial assets and liabilities at the balance sheet date are not materially different from their carrying values.

32 Comparative figures

Certain prior year corresponding figures presented for comparative purposes relating to container terminal income and positive fair value of derivatives have been reclassified to be consistent with the revised presentation adopted this year. Such reclassifications do not affect previously reported net profit or shareholders' equity.

Schedule I**Property and Equipment***for the year ended 31 December 2006*

	Leasehold improvements RO '000	Quay gantry cranes RO '000	Rubber tyre gantry cranes RO '000	Tractors and trailors RO '000	Forklifts and reach Stackers RO '000	Marine equipment RO '000	Motor vehicles RO '000	Computer equipment and software RO '000	Furniture, fixtures and equipment RO '000	Capital work in progress RO '000	Total RO '000
Cost											
1 January 2006	1,076	26,073	15,509	4,279	1,406	5,944	513	1,657	1,678	2,399	60,534
Additions	-	-	-	-	-	-	45	93	116	11,953	12,207
Transfer from CWIP	65	901	-	39	-	-	-	-	-	(1,005)	-
Disposal	-	-	-	-	(5)	-	(21)	-	-	-	(26)
31 December 2006	1,141	26,974	15,509	4,318	1,401	5,944	537	1,750	1,794	13,347	72,715
Accumulated depreciation											
1 January 2006	(937)	(6,720)	(4,310)	(1,783)	(830)	(1,132)	(413)	(1,458)	(1,395)	-	(18,978)
Depreciation for the year	(97)	(1,114)	(1,034)	(391)	(172)	(236)	(70)	(142)	(159)	-	(3,415)
Disposal	-	-	-	-	5	-	21	-	-	-	26
31 December 2006	(1,034)	(7,834)	(5,344)	(2,174)	(997)	(1,368)	(462)	(1,600)	(1,554)	-	(22,367)
Carrying amounts											
31 December 2005	139	19,353	11,199	2,496	576	4,812	100	199	283	2,399	41,556
31 December 2006	107	19,140	10,165	2,144	404	4,576	75	150	240	13,347	50,348

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Schedule I

Property and Equipment

for the year ended 31 December 2006

	Leasehold improvements USD '000	Quay gantry cranes USD '000	Rubber tyre gantry cranes USD '000	Tractors and trailors USD '000	Forklifts and reach Stackers USD '000	Marine equipment USD '000	Motor vehicles USD '000	Computer equipment and software USD '000	Furniture, fixtures and equipment USD '000	Capital work in progress USD '000	Total USD '000
Cost											
1 January 2006	2,796	67,789	40,323	11,128	3,657	15,455	1,335	4,308	4,362	6,242	157,395
Additions	-	-	-	-	-	-	117	242	305	31,072	31,736
Transfer from CWIP	168	2,343	-	100	-	-	-	-	-	(2,611)	-
Disposal	-	-	-	-	(14)	-	(57)	-	-	-	(71)
31 December 2006	2,964	70,132	40,323	11,228	3,643	15,455	1,395	4,550	4,667	34,703	189,060
Accumulated depreciation											
1 January 2006	(2,435)	(17,472)	(11,206)	(4,637)	(2,159)	(2,943)	(1,076)	(3,793)	(3,628)	-	(49,349)
Depreciation for the year	(253)	(2,898)	(2,688)	(1,016)	(448)	(615)	(181)	(369)	(413)	-	(8,881)
Disposal	-	-	-	-	14	-	57	-	-	-	71
31 December 2006	(2,688)	(20,370)	(13,894)	(5,653)	(2,593)	(3,558)	(1,200)	(4,162)	(4,041)	-	(58,159)
Carrying amounts											
31 December 2005	361	50,317	29,117	6,491	1,498	12,512	259	515	734	6,242	108,046
31 December 2006	276	49,762	26,429	5,575	1,050	11,897	195	388	626	34,703	130,901